FRoSTA AG

ANNUAL REPORT 2010

FINANCIAL YEAR		2009	2010
Employees (average)	number	1,614	1,520
Turnover	mill. EUR	411	393
EBITDA[1] in % of turnover	mill. EUR	32.5 7.9 %	29.8 7.6 %
Depreciation	mill. EUR	11.6	12.1
EBIT[2] in % of turnover	mill. EUR	20.9 5.1 %	17.7 4.5 %
Result from ordinary business activities	mill. EUR	17.4	14.2
Group result for the year	mill. EUR	12.0	9.8
Cash flow	mill. EUR	25.1	21.8
Investments	mill. EUR	12.1	10.7
Dividend per share	EUR	0.75	0.75

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

FINANCIAL CALENDAR 2011	
Friday, March 25, 2011	Financial Press Conference Restaurant Nil Neuer Pferdemarkt 5 20359 Hamburg
Friday, May 6, 2011	Publication of interim report per April 30, 2011
Friday, July 1, 2011	Annual General Meeting Stadthalle Bremerhaven Wilhelm-Kaisen-Platz 27576 Bremerhaven
Thursday, August 4, 2011	Publication of half-year report 2010
Friday, October 7, 2011	Publication of interim report per September 30, 2011

Dear Shareholders,

In 2010 our turnover fell by 4.5 %, while profit dropped by 18 %. In many markets we were unable to pass on to our customers the full increases in raw material costs. This has led to a substantial reduction in our margins.

Many factors played a part:

1. In a more volatile raw materials market, we have to adjust our prices more quickly. This will be a challenge for us in the near future.
2. Tougher overall competition, sometimes from state-owned enterprises who are able to pursue an extremely aggressive pricing policy in spite of continuous negative results.
3. Relatively high overheads resulting from complex structures. It will be a challenge for us to reduce complexity and improve efficiency.

In spite of massive increases in the prices for raw material, we still use only the finest ingredients. We feel very strong about this as it is the only way of convincing customers and consumers on a sustained basis that our products are the best. At the same time, we are fully committed to improving our environmental and climate performance. By the year 2013, FRoSTA aims to improve the carbon footprint of all its brand products by 70 %. You can read more about this on our website.

The FRoSTA brand saw a positive development, with market share growing in Germany as well as in Austria, Poland and Eastern Europe. Our "Koch-kreativ" concept recently introduced in Germany shows that it takes only a few minutes at home to prepare easy dishes using natural ingredients. The response was so good that we were even faced with supply shortages a few weeks after launching.

To summarise, I can state that our result in 2010 did not meet our expectations. However, we see a lot of potential to match or exceed previous levels within the medium term.

Our staff are highly motivated in pursuing the targets we have set, and I would like to take this opportunity to thank them sincerely for their commitment.

Yours faithfully

Felix Ahlers

MANAGEMENT REPORT

I. GENERAL CONDITIONS AND DEVELOPMENTS IN THE INDUSTRY

1. General economic climate

In 2010, the German economy grew by 3.5 % while in Euroland as a whole the figure was 1.7 %.

Inflation was at a very low level – 1.2 % in Germany and 1.6 % in Euroland (Source: Statistisches Bundesamt).

Moderate increases in consumer prices were in stark contrast to the sharp rise in the price of raw materials, with basic food commodities increasing worldwide by more than 46 % between February 2010 and February 2011 (source: The Economist commodity-price-index in USD). These increases were felt particularly in the second half of 2010, when they were compounded by a rise in the value of the US Dollar against the Euro.

Due to fierce competition, however, (especially among German food retailers) supermarket prices rose at a considerably slower rate and we were only able to pass on part of the raw material price increases to our customers in 2010.

This difficult market situation was further aggravated by the aggressive pricing of our competitors. This was particulary true in the case of a competitor who is de facto state-owned and for years has been using taxpayers' money to cancel out its heavy losses.

We expect the economic recovery to continue in 2011, but we do not expect the difficult market conditions described to improve until mid-2011.

2. Development of the frozen food market

In 2010, the German frozen food market dropped for the first time by 0.7 %. The complete-meal segment, which is of major importance for us, fell by 1.4 %. And so it is all the more encouraging that growth was achieved by our FRoSTA brand meals. We see it as our challenge for the next few years to improve the overall image of frozen food and to reverse this negative trend.

	Volume			Value		
	2008	2009	2010	2008	2009	2010
Ready meals – of these complete ready meals	–1.0 % 2.3 %	–1.2 % –2.0 %	–3.4 % –2.0 %	5.0 % 6.5 %	–0.5 % –1.0 %	–3.3 % –1.4 %
Fish	–0.9 %	–0.5 %	–0.5 %	2.1 %	6.2 %	0.0 %
Vegetables	–0.9 %	–0.3 %	1.3 %	2.0 %	0.3 %	1.6 %
Fruit	1.8 %	3.6 %	18.1 %	12.3 %	10.5 %	6.6 %
Frozen food (total in food retail)	0.4 %	0.9 %	0.5 %	4.4 %	1.3 %	–0.7 %

(source: ACNielsen)

II. Company situation

1. Situation concerning assets, financing and earnings

For the first time in six years, FRoSTA AG turnover in 2010 was down on the previous year, with a drop of 4.5 % being recorded. The decrease in volume was 1 % and affected mainly the private label business in the domestic and foreign markets. The FRoSTA brand business in Germany saw a positive development. The over-proportionately severe drop in turnover as opposed to volume shows that 2010 was marked particularly by lower prices as well as the slight drop in volume.

At 14.2 million EUR, the Group profit before tax was not as high as the 2009 figure of 17.4 million EUR. This drop of 3.2 million EUR or 18 % exceeds the drop in sales.

This development is mainly due to decreasing sales, which led to a drop in unadjusted profit of 8 million EUR. We were able to reduce personnel costs (including external workers) by 3 million EUR as well as cutting advertising costs and interest payments by 0.6 million EUR each. However this was not enough to compensate fully for the drop in unadjusted profit.

At 17.7 million EUR, EBIT was down on the previous year's figure of 20.9 million EUR. As a result of higher depreciation than in the previous year, the EBITDA of 29.8 million EUR is only 8% below the previous year's 32.5 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 TEUR	31.12.2009	31.12.2010
Subscribed capital	16,514	16,721
+ Capital reserves	9,049	9,813
+ Revenue reserves	57,422	67,975
+ Loss and balancing items	–348	71
+ Net result	12,192	6,649
Equity capital	94,829	101,229
Balance sheet total	223,120	225,499
Equity ratio	42.5 %	44.9 %

in million EUR	2006	2007	2008	2009	2010
Turnover	307.3	348.7	391.8	411.3	392.6
EBITDA (earnings before interest, tax and depreciation) in % of turnover	27.4 8.9 %	30.2 8.7 %	32.0 8.2 %	32.5 7.9 %	29.8 7.6 %
– Depreciation	–10.8	–10.9	–11.2	–11.6	–12.1
EBIT (earnings before tax and interest) in % of turnover	16.6 5.4%	19.3 5.5 %	20.8 5.3 %	20.9 5.1 %	17.7 4.5 %
+ Financial result	–2.0	–2.7	–3.1	–3.5	–3.5
Result from ordinary business activities in % of turnover	**14.6** 4.8 %	**16.6** 4.8 %	**17.7** 4.5 %	**17.4** 4.2 %	**14.2** 3.6 %
– Taxes	–4.2	–4.4	–5.6	–5.4	–4.4
Consolidated result for year in % of turnover	**10.4** 3.4 %	**12.2** 3.5%	**12.1** 3.1%	**12.0** 2.9 %	**9.8** 2.5 %

Investment amounting to 10.7 million EUR was slightly lower than in the previous year and also below depreciation. It was completely financed from the cash flow before change in the working capital amounting to 21.8 million EUR (previous year 25.1 million EUR).

Our balance sheet total of 225 million EUR is roughly the same as in the previous year (223 million EUR). We were able to reduce stocks by 7 % to 57 million EUR, while capital assets and receivables remained more or less at previous year's levels. As in previous years, some of the receivables will be re-financed as part of an ABS programme. Liquid funds amounting to 15 million EUR, however, were considerably higher than in the previous year.

In addition to the 6 % increase in equity from 95 million EUR to 101 million EUR, the balance sheet total was financed by long and short-term deferrals and liabilities, with bank liabilities falling by 17 % from 77 million EUR in 2009 to 64 million EUR in 2010. Current account liabilities including the ABS programme amounted to 10 million EUR as opposed to 11 million EUR in 2009. Through the simultaneous increase in liquid funds, we have been able to lower our net debt by 30 %, from 70 million EUR to 49 million EUR.

Due to the increase in equity, the equity ratio grew from 42.5 % to 44.9 %. This equity ratio allows us to retain our financial independence even in difficult economic times.

2. Segment reporting

2.1 Development in business segment FRoSTA

As a result of the difficult market conditions described above, the FRoSTA business segment (brand business in Germany, private label and brand business in Austria, Italy, Poland and Eastern Europe) was not able to match the result of the previous year.

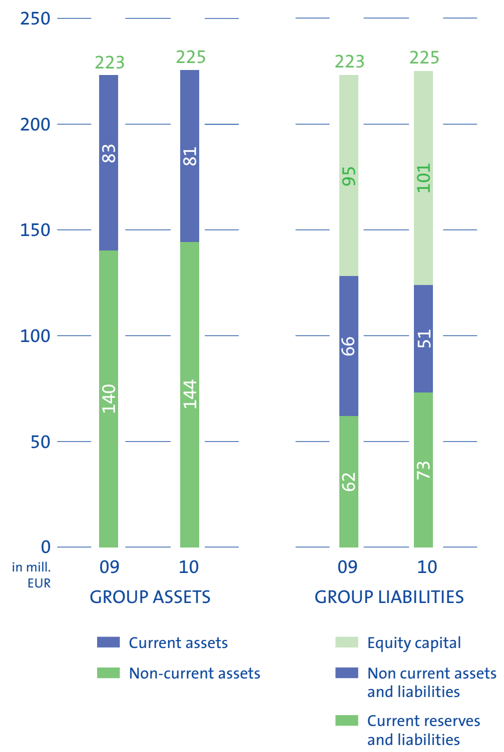
Turnover fell slightly by 2 % (based on Profit and Loss Statement). Due to sharp increases in raw material prices, the operative result was also considerably lower than in the previous year.

In the battle for consumers in Germany, the FRoSTA brand performed very well in its core fields. In the market segment complete frozen meals, FRoSTA strengthened its leading position and was the only brand to record growth of 13 % on the previous year (Source: Nielsen 2010). This is in contrast to the vegetable segment, which saw a drop in double figures up to October. Since then we have been marketing a completely new and extensive vegetable range based on our "Koch-kreativ" concept. This concept uses choice quality products according to the well-known and trusted FRoSTA Purity Command. The response from the retail sector has been very positive so far, and first point- of-sale analyses give us grounds for optimism.

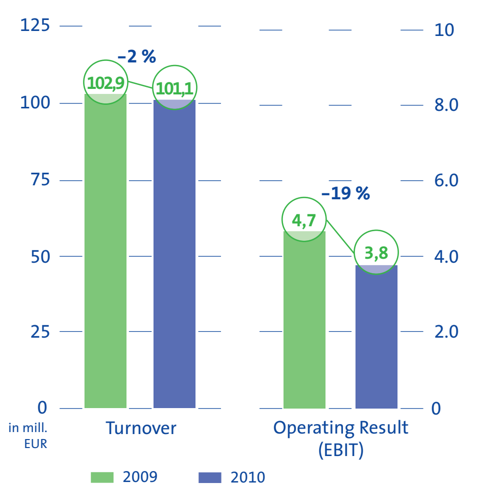
In 2010 we introduced advertising to support our brand in Austria. This has led to accelerated growth of the brand. However, the result in Austria depends heavily on the private label business, and the sharp increases in raw material prices have had a strong negative effect on profit.

CASH FLOW BEFORE CHANGE IN WORKING CAPITAL

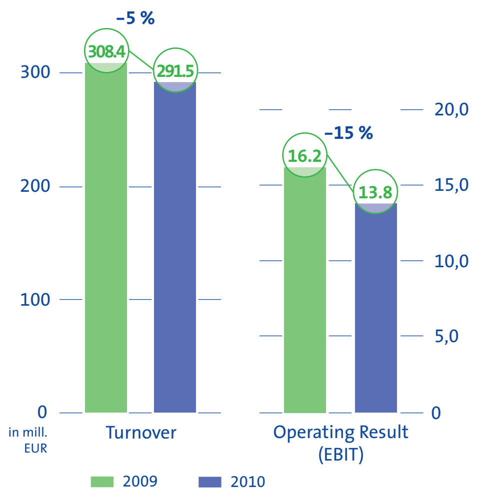
GROUP BALANCE SHEET STRUCTURE



BUSINESS SEGMENT FRoSTA



BUSINESS SEGMENT COPACK



Our business activities in Poland were generally successful. Our FRoSTA brand saw particularly strong growth (+ 17 %) and we were able to cement our market leadership in both fish and ready meals. Business in the Balkans was also encouraging, with new contracts being generated for fish private labels in Serbia, Croatia and Slovenia. In Hungary, we just failed to reach the previous year's turnover. The overall economic situation here was also difficult. The same is true for Romania. We failed to match the previous year's result and here also we are confronted with the challenge of an unfavourable overall economic situation as well as difficult conditions in our market segment. Business in Russia is again on the decline and accompanied by frequent disruptions to the supply chain as well as our distribution channels. In Italy we were able to match the previous year's very good result in turnover, but here also our result is affected by sharp rises in raw material prices.

In all fields of business and in all countries we have been forced to pass on raw material price increases to our trading partners. Talks have been held and negotiations completed with our partners.

2.2 Development in business segment COPACK

The business segment COPACK comprises all activities connected with the private label business in the food retail, home delivery, catering and industrial sectors, i.e. "Business to Business". These activities cover Germany and Western Europe. The COPACK business was marked by a very fierce competitive environment. Discount supermarkets in particular exerted great pressure on prices through waves of price-cuts. This put great pressure on COPACK profit margins. And so, in 2010, we were not always able to extend the contracts with our customers at cost-covering prices, which forced us to terminate some contracts. This in turn resulted in a drop in volume and turnover in this segment. This decline in turnover and the resulting absolute decrease in unadjusted profit were the reasons for the corresponding drop in profit in this segment.

3. Individual financial statement of FRoSTA AG

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

In contrast to the Group financial statements, for which the international rules of IFRS apply, the individual financial statements of FRoSTA AG are created according to the rules of the German Commercial Code (HGB), taking into account for the first time this year the BilMoG (new German legislation on accounting practices).

As in the Group, FRoSTA AG turnover in 2010 was down on the previous year's result.

The individual development corresponds with the development of the group as a whole. In the individual financial statement, we report a profit after tax of 12.7 million EUR according to the accounting principles of the German Commercial Code. The previous year's figure was 15.4 million EUR. It must be remembered that this included a one-off item amounting to 3.6 million EUR after tax resulting from the cancellation of the Lifo stocks tax evaluation.

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 2010 (HGB)	**12,703**
Changes IFRS	
Depreciation	-1,108
Miscellaneous	84
FRoSTA AG ANNUAL NET PROFIT FOR 2010 (IFRS)	**11,679**
Total result for the year for subsidiaries consolidated in the Group financial statements	1,511
Consolidating entries: Effects of the consolidating entries affecting the operating result	-3,342
Consolidated annual net profit FRoSTA AG 2010	**9,848**

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

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

An important factor in the income-related consolidating entries was the write-up in the individual statement of our shareholding in our Polish subsidiary. In this statement we have allocated a write-up of 3.3 million EUR to the shareholding and thus reached once more the value of the acquisition costs. In the IFRS Group statement, this write-up is reversed.

At the Annual General Meeting, the Board will propose a dividend of 0.75 EUR per share as in the previous year. This corresponds to a total dividend payment of 4.9 million EUR (50 % of the result). We will recommend depositing the remaining profits amounting to 4.9 million EUR (50 % of the result) in the other revenue reserves.

The FRoSTA Group profit before tax amounting to 14.2 million EUR can be broken up as follows:

	TEUR	Proportion
Current corporation tax	4,359	31 %
Capital gains tax withheld on dividend payments	1,292	9 %
Total current corporation tax and capital gains tax	**5,651**	**40 %**
Net dividend payments	3,607	25 %
Retained by company	4,949	35 %
Total	**14,207**	**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.

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

The FRoSTA share saw a positive development in 2010. In January 2010, the share price was 16.95 EUR, and in December 2010 20.50 EUR. The dividend yield is nearly 4 %, which makes the FRoSTA share an interesting proposition for investors.

KEY FIGURES FOR THE FRoSTA-SHARE	2009	2010
Number of shares	6,450,833	6,531,457
Equity capital on consolidated balance sheet (TEUR) Equity capital per share (EUR)	94,829 14.70	101,229 15.50
Share price at year end (EUR) Year high (EUR) Year low (EUR) Number of shares sold	17.20 18.35 13.15 310,282	20.50 21.00 16.40 597,021
Price-earnings ratio (Price at year end/annual net profit)	9.25	13.60
Dividend payout per share (EUR) Dividend yield (Dividend/price at year end)	0.75 4.4 %	0.75 3.7 %
Group annual result (TEUR) Annual result per share (EUR)	12,012 1.87	9,848 1.52
Cash flow before change in working capital for Group (TEUR) Cash flow before change in working capital per share (EUR)	25,100 3.89	21,769 3.33

On December 31, 2010, the total subscribed capital of FRoSTA AG amounted to 16,720,529.92 EUR, which is the equivalent of 6,531,457 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 24, 2010, the Board is entitled to acquire up to 10 % of all shares. This resolution is valid for a period of 5 years until June 23, 2015. This right was not exercised in 2010.

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

5. Employees

The average number of workers employed over the year fell by 5.8 % to 1,520.

Total expenditure on personnel (not including severance payments) dropped to 56 million EUR, compared with previous year, a reduction of 1.8 % due to the reduced staff. The number of apprentices rose from last year's 33 to 34. In 2010, staff fluctuation was again very low at 3.1 %. In Germany, absence through illness could also be kept low at 4.5 %.

As in the years before, in 2010 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 69,254 (2009: 32,427). A total of 192 buyers took part in the campaign (2009: 187). We are satisfied with our employees' involvement in this scheme and pleased with the trust demonstrated. We hope that even more employees will become FRoSTA shareholders in future.

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

EMPLOYEES	2009	2010
FRoSTA HEAD OFFICE	**230**	**235**
- thereof administration	152	160
- thereof sales (also abroad)	78	75
PRODUCTION SITES	**1,384**	**1,285**
- Schottke, Bremerhaven	597	541
- Rheintal, Bobenheim-Roxheim	141	143
- ELBTAL, Lommatzsch	161	159
- Bydgoszcz, Polen	485	442
GROUP TOTAL	**1,614**	**1,520**

6. R & D Report

In product development in 2010, our focus was on expanding our product range in the FRoSTA brand business. Specifically, we developed a new vegetable range, which was successfully introduced as part of our "Koch-kreativ" marketing concept. We also developed an innovative soup concept in collaboration with the "Brigitte" magazine. At the end of last year, a whole new range entered the market under the name of FRoSTA "Brigitte Diät".

7. Procurement

The year 2010 was marked by great fluctuations in the raw materials market. Extremely severe weather conditions throughout Europe meant that we were forced to source fruit and vegetables from other continents. This led in part to considerably higher procurement costs. Total vegetable harvests were down by 20 to 30 % on previous years' averages. In the second half of the year oil and paper prices rose sharply, too, pushing up prices for packaging material. Thanks to our long-term global networking, however, we were able, with some minor exceptions, to avoid any shortages in supply.

8. Production

All four FRoSTA AG production plants were successful in achieving the targeted efficiency improvements. This compensated on the whole for the higher labour costs. Besides tackling efficiency issues, we also made great progress in quality assurance including the installation of laser and X-ray detection equipment.

The factory utilisation rate was again very high last year.

9. Investments

Once again, no major investments were planned or necessary. Most investments carried out were in the fields of quality, energy savings and routine machinery replacements.

10. Organisation, administration and company structure

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

Since January 1, 2010 Felix Ahlers took over the position as Chairman. With effect from January 1, 2010, Hinnerk Ehlers was appointed to the position of Executive Board Member responsible for Marketing and Distribution of FRoSTA AG. Dr Stephan Hinrichs remains Executive Board Member responsible for Finance and Administration and Jürgen Marggraf remains Executive Board Member responsible for Operations as well as Deputy Chairman. The FRoSTA business section is headed by Mr Ahlers and Mr Ehlers, while COPACK is under the leadership of Dr Hinrichs and Mr Marggraf.

The Supervisory Board of FRoSTA AG comprises Ulf Weisner and Jürgen Schimmelpfennig, as elected workers' representatives. The Chairman of the Supervisory Board, Dr Herbert Müffelmann, tendered his resignation at the FRoSTA AG general meeting in 2010. At this same meeting, Dirk Ahlers was elected to the Supervisory Board. The Supervisory Board elected Dirk Ahlers as its new chairman.

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. For further information, please refer to our Declaration on Corporate Governance on our website www.frosta-ag.com and on page 52 of this report.

On the recommendation of its Committee for Finances and Personnel, FRoSTA AG's Supervisory Board determines the value and structure of Executive Board Members' remuneration. Dirk Ahlers and 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 remuneration made in the form of shares as part of the employee participation programme (applies only for some Board Members).
- an annual bonus related to the Group profit before tax. This bonus is paid in three instalments.
- a long-term bonus based on the three-year average ROI of FRoSTA AG (applies only for some Board Members).

Executive Board remuneration in 2009 and 2010 was as follows:

Year	Basic salary TEUR	Payment for share purchase TEUR	Remuneration in the form of company shares TEUR	Variable payment TEUR	Insurances TEUR	Total TEUR
2009	996	170	0	1,271	8	2,445
2010	1,067	0	195	900	10	2,172

Total payments to former members of the Executive Board of FRoSTA AG and the Group amounted in the financial year to TEUR 71 as opposed to TEUR 70 the previous year.

In compliance with resolutions passed at the Annual General Meeting on June 15, 2006 the company does not publish the remuneration of every board member. This arrangement is legally based on § 286 Abs. 5 AktG (German corporation law) and applies for the financial years until 2010.

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

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

Supervisory Board remuneration in 2009 and 2010 was as follows:

Year	Basic salary TEUR	Bonus TEUR	Total TEUR
2009	14	46	60
2010	14	48	62

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 2010, 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 2010.

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. Quality checks, however, cannot guarantee the absolute safety of raw materials since the thresholds for contamination are becoming ever lower and the checks are only carried out on a random basis.

FRoSTA purchases most of its raw materials from international markets. Some of these goods are invoiced in US Dollars. We make use of the usual options and futures trading instruments available on the market to hedge exchange rate fluctuations. The way these currency hedging instruments are dealt with is precisely stipulated by a set of procedural regulations, and controlling instruments are employed to ensure that these are adhered to. The hedging of exchange rate risks can only compensate to a limited extent for the continually rising US Dollar. A long-term deterioration in the EUR-USD rate would lead to a rise in expenditure for commodity purchases.

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

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

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

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

There are no significant risks from pending legal disputes. An external tax audit for the year 2004 is still pending.

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

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

Our process-independent monitoring programme includes the internal audits of our quality management officers and internal review projects as well as the work of the annual accounts auditor, the tax auditor and indeed the Supervisory Board.

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

IV. Events after the end of the financial year

As could be expected, turnover achieved up to February 2011 was slightly lower than the previous year's level. Earnings are below last year's figure. This was also expected as profits were quite high at the beginning of last year.

Since February 2011, FRoSTA AG shares are being traded at the Entry Standard of the Frankfurt Stock Exchange, and no longer in the regulated market of the Berlin Stock Exchange. This means that FRoSTA AG has moved to a stock-market segment which ensures reasonable cost efficiency for a medium-sized company, while at the same time observing the transparency rights of shareholders.

Outlook

In the next years we expect the market for frozen food to continue to grow at lower single-digit figures. Our target for the next two years is to participate in this growth and perform slightly better than the market in general. At the same time, we intend to maintain our profitability or slightly increase.

In January und February of 2011 we saw a drop in sales of 1.5 % against last year's figure. At present, it is still difficult to predict how the market will develop in the year to come.

It will be particularly important for us that we can pass on raw material price increases to our customers – especially in meat, wheat, vegetables and dairy products. Due to the fact that competition for consumers is so fierce, and also because some of our competitors are heavily state-subsidised and have actually been making a loss for years, it will be a major challenge for us to enforce these price increases.

Due to the many uncertainties, it is impossible at this point of time to make a projection concerning FRoSTA's development in 2011. 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 2011

The Executive Board

CONSOLIDATED FINANCIAL STATEMENTS FRoSTA AG

	Note item	2009 TEUR	2010 TEUR
1. Turnover	(40)	411,320	392,616
2. Reduction of stocks of finished and unfinished products (2009: Increase)		5,486	–3,436
3. Own work capitalised		93	64
4. Other operating income	(41)	7,865	9,169
5. OPERATING INCOME		**424,764**	**398,413**
6. Cost of materials			
a) Raw materials, consumables and goods purchased for resale		–259,056	–241,326
b) Purchased services		–10,524	–10,533
		–269,580	**–251,859**
7. GROSS PROFIT		**155,184**	**146,554**
8. Personnel expenses	(42)		
a) Wages and salaries		–49,095	–47,169
b) Social security and other pension costs and for support thereof for pensions TEUR 81 (2009: TEUR 36)		–8,436	–8,642
		–57,531	**–55,811**
9. Depreciation/amortisation of intangible and tangible fixed assets	(43)	–11,642	–12,066
10. Other operating expenses	(44)	–65,105	–61,026
11. OPERATING RESULT		**20,906**	**17,651**
12. Income from participations, thereof from participations with associated companies TEUR 80 (2009: TEUR 107)		247	188
13. Other interest and similar income	(45)	320	344
14. Depreciation of shares in affiliated companies		0	–550
15. Interest and similar expenses	(45)	–4,038	–3,426
16. Financial result		**–3,471**	**–3,444**
17. RESULT FROM ORDINARY BUSINESS ACTIVITIES		**17,435**	**14,207**
18. Current taxes on income and earnings	(46)	–6,843	–4,621
19. Deferred taxes	(46)	–1,420	262
20. CONSOLIDATED PROFIT FOR THE YEAR		**12,012**	**9,848**
21. Profit and loss from currency conversion of subsidiaries' results		166	404
22. Total result		**12,178**	**10,252**
Consolidated income attributable			
to owners of parent company		12,178	10,252
to other shareholders		0	0

ASSETS

	Notes item	31.12.2009 TEUR	31.12.2010 TEUR
NON-CURRENT ASSETS			
A. FIXED ASSETS			
1. Intangible assets	(24)	1,252	1,130
2. Tangible assets	(25)	78,929	77,922
3. Financial asset	(26)	1,857	1,387
		82,038	**80,439**
B. DEFERRED TAXES	(47)	**882**	**1,032**
		82,920	**81,471**
CURRENT ASSETS			
1. Inventories	(27)	61,000	56,515
2. Trade receivables	(28)	67,066	68,232
3. Receivables from associated companies		2	3
4. Receivables from current taxes on earnings and income		2,156	1,301
5. Other current assets	(29)		
Financial assets		2,523	2,777
Other assets		1,096	213
6. Financial capital		6,357	14,987
		140,200	**144,028**
BALANCE SHEET TOTAL		223,120	225,499

LIABILITIES

	Notes item	31.12.2009 TEUR	31.12.2010 TEUR
A. EQUITY CAPITAL	(30)		
1. Subscribed capital	(31)	16,514	16,721
2. Capital reserves	(32)	9,049	9,813
3. Revenue reserves	(33)	57,422	67,975
4. Adjustment resulting from currency conversion	(34)	–348	71
5. Group equity capital generated (without revenue reserves)		12,192	6,649
		94,829	**101,229**
B. NON-CURRENT PROVISIONS AND LIABILITIES			
1. Pension provisions	(36)	1,071	1,122
2. Other provisions	(37)	1,466	1,479
3. Bank loans and overdrafts	(38)	58,649	43,388
4. Passive deferred taxes	(47)	5,209	5,077
		66,395	**51,066**
C. CURRENT PROVISIONS AND LIABILITIES			
1. Other current provisions	(37)	44	52
2. Bank loans and overdrafts	(38)	18,030	20,207
3. Trade payables	(38)	27,734	40,568
4. Liabilities to associated companies		32	32
5. Amounts owed to companies in which a shareholding is held		76	193
6. Liabilities from current taxes on earnings and income		3,851	1,882
7. Other liabilities	(39)		
Financial liabilities		3,816	4,372
Other liabilities		8,313	5,898
		61,896	**73,204**
BALANCE SHEET TOTAL		223,120	225,499

	PURCHASE AND MANUFACTURING COSTS						ACCUMULATED DEPRECIATION, AMORTISATION AND WRITE-DOWNS					NET BOOK VALUE	
CONSOLIDATED FIXED ASSETS FRoSTA AG AS PER DECEMBER 31, 2009	As per 1.1.2009 TEUR	Effects of exchange rate TEUR	Additions TEUR	Transfers TEUR	Disposals TEUR	As per 31.12.2009 TEUR	As per 1.1.2009 TEUR	Effects of exchange rate TEUR	Additions TEUR	Transfers TEUR	As per 31.12.2009 TEUR	As per 31.12.2009 TEUR	As per 31.12.2008 TEUR
1. INTANGIBLE ASSETS													
Concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets	11,664	1	640	95	4	12,396	10,623	1	523	3	11,144	1,252	1,041
2. TANGIBLE ASSETS													
a. Land, land rights and buildings including buildings on land owned by third-parties	70,783	114	2,366	1,079	0	74,342	36,042	9	2,549	0	38,600	35,742	34,741
b. Plant and machinery	118,328	235	5,409	10,023	7,054	126,941	89,931	45	5,915	878	95,013	31,928	28,397
c. Other plant, operating and office equipment	42,562	6	2,819	234	1,040	44,581	32,588	4	2,655	1,019	34,228	10,353	9,974
d. Prepayments and assets under construction	11,433	20	884	–11,431	0	906	0	0	0	0	0	906	11,433
	243,106	375	11,478	–95	8,094	246,770	158,561	58	11,119	1,897	167,841	78,929	84,545
3. FINANCIAL ASSETS	1,838	0	107	0	0	1,945	88	0	0	0	88	1,857	1,750
	256,608	376	12,225	0	8,098	261,111	169,272	59	11,642	1,900	179,073	82,038	87,336

	PURCHASE AND MANUFACTURING COSTS						ACCUMULATED DEPRECIATION, AMORTISATION AND WRITE-DOWNS					NET BOOK VALUE	
CONSOLIDATED FIXED ASSETS FRoSTA AG AS PER DECEMBER 31, 2010	As per 1.1.2010 TEUR	Effects of exchange rate TEUR	Additions TEUR	Transfers TEUR	Disposals TEUR	As per 31.12.2010 TEUR	As per 1.1.2010 TEUR	Effects of exchange rate TEUR	Additions TEUR	Transfers TEUR	As per 31.12.2010 TEUR	As per 31.12.2010 TEUR	As per 31.12.2009 TEUR
1. INTANGIBLE ASSETS													
Concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets	12,396	3	435	2	0	12.836	11,144	3	559	0	11,706	1,130	1,252
2. TANGIBLE ASSETS													
a. Land, land rights and buildings including buildings on land owned by third-parties	74,342	289	1,291	207	254	75,875	38,600	35	2,684	163	41,156	34,719	35,742
b. Plant and machinery	126,941	414	5,051	681	1,048	132,039	95,013	154	6,015	923	100,259	31,780	31,928
c. Other plant, operating and office equipment	44,581	19	2,598	27	976	46,249	34,228	13	2,808	947	36,102	10,147	10,353
d. Prepayments and assets under construction	906	21	1,266	–917	0	1,276	0	0	0	0	0	1,276	906
	246,770	743	10,206	–2	2,278	255,439	167,841	202	11,507	2,033	177,517	77,922	78,929
3. FINANCIAL ASSETS	1,945	0	80	0	0	2,025	88	0	550	0	638	1,387	1,857
	261,111	746	10,721	0	2,278	270,300	179,073	205	12,616	2,033	189,861	80,439	82,038

	Subscribed capital TEUR	Capital reserve TEUR	Revenue reserves TEUR	Other accumulated equity capital		Equity capital TEUR
				Balancing items from currency conversion TEUR	Group equity capital earned (excluding revenue reserves) TEUR	
As per January 1, 2009	**16,418**	**8,699**	**51,561**	**–575**	**10,851**	**86,954**
Dividends paid					–4,810	–4,810
Share issue	96	304				400
Additional expenditure due to issue of employee shares		46				46
Transfer to revenue reserves			5,861		–5,861	0
Currency change				227		227
Consolidated profit for the year					12,012	12,012
As per December 31, 2009	**16,514**	**9,049**	**57,422**	**–348**	**12,192**	**94,829**
Dividends paid					–4,838	–4,838
Share issue	207	666				873
Additional expenditure due to issue of employee shares		98				98
Transfer to revenue reserves			10,553		–10,553	0
Currency change				419		419
Consolidated profit for the year					9,848	9,848
As per December 31, 2010	**16,721**	**9,813**	**67,975**	**71**	**6,649**	**101,229**

	31.12.2009 TEUR	31.12.2010 TEUR
Consolidated profit for the year before taxes on income	17,435	14,207
Depreciation of fixed assets	+11,642	+12,616
Income from interest	–320	–344
Interest expenses	+4,038	+3,426
Decrease/increase in non-current provisions	–310	+64
Result of the disposal of non-current fixed assets	+37	–6
Non-cash income and expense	+1,025	+459
Interest paid	–3,584	–3,385
Interest received	+82	+136
Taxes on income paid	–5,412	–6,434
Taxes on income received	+467	+1,030
CASH FLOW BEFORE CHANGE IN WORKING CAPITAL	**+25,100**	**+21,769**
Decrease/increase in current provisions	–64	+8
Decrease in inventories, trade receivables and other assets that cannot be classified as investing or financial activities	+13,876	+4,155
Decrease/increase in trade payables and other liabilities that cannot be classified as investing or financing activities	–14,732	+10,494
CASH FLOW FROM OPERATING ACTIVITIES	**+24,180**	**+36,426**
Proceeds from disposals of fixed assets	+20	+50
Proceeds from grants	+6,141	–
Payments for investments in fixed assets	–11,478	–10,206
Payments for investments in intangible assets	–639	–435
CASH FLOW FROM INVESTING ACTIVITIES	**–5,956**	**–10,591**
Proceeds from increases in equity capital	+400	+873
Dividends to shareholders	–4,810	–4,838
Proceeds from new bank loans	+25,530	+17,325
Repayment of bank loans	–6,847	–29,531
Decrease of current liabilities to banks	–28,308	–1,068
CASH FLOW FROM FINANCING ACTIVITIES	**–14,035**	**–17,239**
Effect of changes in exchange rates on cash and cash equivalents	+3	+34
Net change in cash and cash equivalents	+4,189	+8,596
Cash and cash equivalents at the beginning of the period	+2,165	+6,357
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**+6,357**	**+14,987**

FRoSTA Aktiengesellschaft, Bremerhaven

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2010

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 27572 Bremerhaven, Am Lunedeich 116. FRoSTA AG’s Executive Board approved the consolidated financial statements on March 16, 2010 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, 2010 have been prepared in compliance with the International Accounting Standards Board’s (IASB) financial accounting standards – the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRSs) – which are binding within the European Union. In addition, IFRS 8.23 was applied in the IASB version of April 2009. In doing so all IAS or IFRSs to be applied as at December 31, 2010 and the appropriate interpretations provided by the Standing Interpretations Committee (SIC) or the International Financial Reporting Interpretations Committee (IFRIC) were complied with. The requirements of the above mentioned regulations were fulfilled, so that FRoSTA AG’s consolidated financial statements convey an appropriate picture of the assets, finances and earnings as well as the cash flows within the financial year.

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

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

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

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

Name and headquarter of company	Capital share 2009 in %	Capital share 2010 in %
1. COPACK Tiefkühlkost-Produktionsgesellschaft mbH, Bremerhaven	100.00	100.00
2. ELBTAL Tiefkühlkost Vertriebs GmbH, Lommatzsch	100.00	100.00
3. Feldgemüse GmbH, Lommatzsch	100.00	100.00
4. FRoSTA France S.a.r.l., Boulogne-Billancourt/France	100.00	100.00
5. FRoSTA Tiefkühlkost GmbH, Bremerhaven	100.00	100.00
6. FRoSTA Foodservice GmbH, Bremerhaven	100.00	100.00
7. FRoSTA Italia s.r.l., Rome/Italy	100.00	100.00
8. FRoSTA Tiefkühlkost GmbH, Baden/Austria	100.00	100.00
9. FRoSTA ČR s.r.o., Prague/Czech Republic	100.00	100.00
10. FRoSTA Sp. z o.o., Bydgoszcz/Poland	100.00	100.00
11. BioFreeze GmbH, Bremerhaven	100.00	100.00
12. TIKO Vertriebsgesellschaft mbH, Bremerhaven	100.00	100.00

The Group Statement includes the following affiliated company:

Name and headquarter of company	Capital share 2009 in %	Capital share 2010 in %	Book value 2009 TEUR in %	Book value 2010 TEUR in %
Bio-Frost Westhof GmbH, Wöhrden	45.00%	45.00 %	1,736	1,266

The financial standings of the affiliated company can be summarised as follows:

	31.12.2009 TEUR	31.12.2010 TEUR
Total financial assets	3,994	4,711
Total debts	3,020	3,558
Net assets	974	1,153
Group share of net assets	438	519
Yearly result	237	178
Group share	107	80

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

Name and headquarter of company	Capital share 2009 in %	Capital share 2010 in %
FRoSTA Romania S.R.L., Bucharest/Rumainia	100.00	100.00
FRoSTA Benelux B.V., Berkel-Enschot/The Netherlands	100.00	100.00
NORDSTERN America Inc., Seattle/USA	100.00	100.00
FRoSTA Hungary Kft., Esztergom/Hungary	100.00	100.00
Copack Sp. z o.o., Bydgoszcz/Poland	100.00	100.00
Columbus Spedition GmbH, Bremerhaven	33.33	33.33

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	2009	2010
Polish Zloty	4.1168	3.9659
Czech Crown	26.405	25.115

3. Illustration of accounting and valuation methods

5 a) Realisation of revenue and expenses

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

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

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

Dividends are recognised at the time they are paid out.

6 b) Intangible assets

Purchased intangible assets are valued at cost.

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

	Useful life in years
Software	4
Licences	4

7 c) Tangible assets

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

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

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

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

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

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

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

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

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

If it is not possible to determine the amount obtainable for individual assets, the cash flow for the next higher classification of assets for which this type of cash flow can be established, will be determined. The cash flow forecast of these cash-generating units is based on the detailed financial budget for the next years and the financial planning strategy over and above this period. The growth rates assumed do not exceed the average growth rates for the industry in which the respective cash-generating unit is active. The discount rate is based on a weighted average calculation of capital costs taking into account the borrowing capital/equity capital structure and amounts to 8.35 % before taxes. Should there be no reason for unscheduled depreciation, a revaluation is carried out to a maximum of the cumulative procurement or manufacturing cost.

9 **e) Participating interests**

Shares in subsidiaries and associated companies that have not been consolidated because they are insignificant or not included 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. Existing plan assets are to be set off against provisions for partial retirement. The plan assets are to be evaluated at fair value, which is to be appended.

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

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

15 **k) Liabilities**

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

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

16 **l) Deferred taxes**

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

17 **m) Derivative financial instruments**

Forward-exchange contracts, forward options and interest-rate swaps

Forward-exchange contracts and forward options as well as interest-rate swaps 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 subject to stringent internal controls.

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

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

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

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

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

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 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	Art	31.12.2009 Nominal amount TEUR	31.12.2009 Fair value TEUR	31.12.2010 Nominal amount TEUR	31.12.2010 Fair value TEUR
Forward-exchange contracts	Purchase TUSD	15,082	346	17,180	15
	Sale TGBP	628	–7	1,307	0
Currency swaps	Sale TUSD	1,746	–3	0	0
	Purchase TUSD	0	0	541	2
	Sale TGBP	0	0	437	5
	Purchase TGBP	0	0	42	0
Interest-rate swaps	Loan TEUR	18,723	–1,403	27,408	–1,254
Interest-cap contract	Loan TEUR	5,000	0	0	0

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, 2009 and 2010 are as follows:

TEUR	31.12.2009	31.12.2010
Within a year	8,190	3,212
Between one and five years	10,100	19,600
Over five years	5,433	4,596
Total	23,723	27,408

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 one or four years, after which the securities may be sold.

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

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

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

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

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

21 **p) Foreign currency transactions**

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

22 **q) Use of accounting estimates**

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

Significant accounting estimates and assumptions have in particular been made with regard to establishing depreciable lives, the actuarial parameters in assessing pensions, 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**

In 2010, the EU adopted further standards, but these were not yet mandatory as per December 31, 2010. These included altered or revised versions of IFRS 1 "Additional Exemptions for first-time Adopters" and IAS 24 "Related Party Disclosures". All standards mentioned are to be applied for the first time in financial years beginning after July 01, 2010 or on January 01, 2011. 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.

5) Notes on the consolidated balance sheet

24 **a) Intangible assets**

The development of the individual items in the intangible assets is shown in the consolidated assets (p. 22). The share of foreign subsidiaries in the net book value as per December 31, 2010 amounted to TEUR 35 (2009: TEUR 27).

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 2010 amounted to TEUR 1,391 (2009: TEUR 1,414).

25 **b) Tangible assets**

As regards the development of the tangible assets please see the consolidated fixed assets. The share of tangible assets located abroad, primarily in Poland, in the net book value as per December 31, 2010 amounted to TEUR 14,255 (2009: TEUR 14,225). Investment grants and subsidies received in the financial year reduce procurement costs by TEUR 10,352 (2009: TEUR 11,689). Non-scheduled depreciation amounting to TEUR 814 is taken into consideration, based on current projected contributions to operating income. In past years further non-scheduled depreciation was included. In the event of the reasons for the non-scheduled depreciation not applying, the maximum revaluation possible is the amount of the cumulative procurement or production costs. This amounted to TEUR 2,261 on December 31, 2010 (2009: TEUR 1,547).

26 **c) Financial assets**

As regards the development of the financial assets please see the consolidated fixed assets. As regards the unconsolidated shares in subsidiaries the valuation on the balance sheet date is accounted for at cumulative cost. In the financial year, a depreciation amounting to TEUR 550 was effected for the shareholding in Bio-Frost Westhof GmbH.

27 **d) Inventories**

The inventories are comprised as follows:

TEUR	31.12.2009	31.12.2010
Raw materials and consumables	23,626	23,491
Unfinished goods	16,814	14,202
Finished products and goods	19,600	18,534
Down payments	960	288
Inventories	61,000	56,515

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 1,645 (2009: TEUR 348).

28 **e) Trade receivables**

Trade receivables are comprised as follows:

TEUR	31.12.2009	31.12.2010
Trade receivables, gross	67,390	68,635
Value adjustments on trade receivables	–324	–403
Trade receivables	67,066	68,232

Value adjustments on trade receivables have developed as follows:

TEUR	2009	2010
Value adjustments January 1	446	324
Spread	0	1
Allocations	20	117
Utilisation	–100	–22
Dissolutions	–42	–17
Value adjustments December 31	324	403

Expenditure on total write-offs amount to TEUR 49 (2009: TEUR 44). Income from written-off receivables amount to TEUR 17 (2009: TEUR 42).

Risks included in the trade receivables:

TEUR	31.12.2009	31.12.2010
Neither overdue nor adjusted receivables	64,631	65,741
Overdue receivables not individually adjusted		
Less than thirty days	2,193	2,268
Thirty to sixty days	235	64
More than sixty days	7	159
Total receivables overdue	2,435	2,491
Net accounting value	67,066	68,232

Receivables sold in ABS transactions amounted to TEUR 12,081. 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	31.12.2009	31.12.2010
Creditors with debit balances	210	212
Employees	82	51
VAT and consumer tax	1,823	1,760
Other	408	754
Financial assets	2,523	2,777
Delimitations	972	213
Partial retirement/ bankruptcy insurance	124	0
Other assets	1,096	213
Sundry assets	3,619	2,990

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

g) Excess of plan assets over pension liability

An amount payable of TEUR 150 from arrears in partial retirement liabilities was set off against distributable assets with a fair value of TEUR 196. The resulting asset excess over pension liability was TEUR 46. Procurement costs for the distributable assets amounted to TEUR 198.

30 **h) Equity capital**

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

Minimum capital requirements have been met.

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

31 **Subscribed capital**

Subscribed capital amounts to TEUR 16,721. Taking into consideration 6,531,457 shares, the calculatory value is EUR 2.56 per share. On September 20, 2010 the Board decided to raise the company subscribed capital by TEUR 206 to a total of TEUR 16,721 by issuing 69,254 transferable shares from the employee participation programme and 11,370 transferable shares as part of the bonus scheme. The bonus scheme shares were issued at the share price valid on the day of transfer. The purchase price was TEUR 196. The nominal value of the shares was TEUR 206. On the balance sheet date, 1,100 shares had not yet been paid for. Payment was effected in January 2011.

Apart from this there are authorised capital funds, as yet unused, for a fixed period until June 16, 2014 amounting to TEUR 198 for the issuing of shares to employees of FRoSTA AG and its affiliated companies, as well as authorised capital funds of TEUR 5,000 for a fixed period until June 30, 2012 for a capital increase from cash contributions.

32 **Capital reserves**

The capital reserves include the premiums from issuing the shares and the personnel expenses from the employee share 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, 2010, these came to TEUR 12,703 (2009: TEUR 15,391).

The Shareholders' Meeting on June 24, 2010 decided to pay out a dividend of EUR 0.75 per share (TEUR 4,838) and to transfer TEUR 10,553 into revenue reserves based on FRoSTA AG's net profit as at December 31, 2009.

FRoSTA AG's Executive Board proposes a dividend of EUR 0.75 per share for 2010 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	2009	2010
Proposal 1 – number of shares	19,739	46,044
Issue price (EUR)	8.40	8.50
Market rate (EUR)	16.80	17.00
Estimated market price (EUR)	9.80	11.33
Balance (EUR)	1.40	1.42
Value (TEUR)	**28**	**65**
Proposal 2 – number of shares	12,688	23,210
Issue price (EUR)	12.60	12.75
Estimated market price (EUR)	14.00	15.58
Balance (EUR)	1.40	1.42
Value (TEUR)	**18**	**33**
Total (TEUR)	**46**	**98**

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

Share-based remuneration

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

TEUR	2009	2010
Shares issued in the current financial year	0	5,240
Shares issued in the previous financial year	5,020	6,130
	5,020	**11,370**

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 2009 and 2010 the following parameters were used:

	2009	2010
Interest rate	5.25 %	4.70 %
Salary trend	3.00 %	2.00 %
Pension trend	2.00 %	2.00 %

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

In 2009 and 2010 the following expenses were incurred:

TEUR	2009	2010
Actuarial profits/losses	79	103
Personnel revenue/costs	**79**	**103**
Interest paid	35	32
Pensions revenue/costs	**114**	**135**

The provision recorded in the balance sheet developed as follows:

TEUR	2009	2010
Provisions as per January 1	**1,041**	**1,071**
Pensions costs/revenue	114	135
Payments to pensioners	–84	–84
Provisions as at December 31	**1,071**	**1,122**

37 **i) Other provisions**

The other provisions are made up as follows:

TEUR	As at 01.01.2010	Utilisation	Write-back	Transfer	As at 31.12.2010
Partial retirement	269	303	7	128	87
Jubilee payments	1,197	142	0	337	1,392
Sundry non-current provisions	**1,466**	**445**	**7**	**465**	**1,479**
Severance payments	44	0	0	6	50
Anticipated losses	0	0	0	2	2
Sundry current provisions	**44**	**0**	**0**	**8**	**52**
Sundry provisions	**1,510**	**445**	**7**	**473**	**1,531**

Partial retirement provisions were made taking into consideration distributable assets with a fair value of TEUR 203.

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
Liabilities to banks (previous year)	63,595 (76,679)	20,207 (18,030)	33,924 (42,363)	9,464 (16,286)
Trade payables (previous year)	40,568 (27,734)	40,568 (27,734)	0 (0)	0 (0)
Liabilities to affiliated companies (previous year)	32 (32)	32 (32)	0 (0)	0 (0)
Amounts owed to companies in which a shareholding is held (previous year)	193 (76)	193 (76)	0 (0)	0 (0)
Other liabilities (previous year)	10,270 (12,129)	10,270 (12,129)	0 (0)	0 (0)

Bank loans and overdrafts are secured by mortgages (TEUR 18,311; 2009: TEUR 23,665) and secured by similar rights (TEUR 8,515; 2009: TEUR 13,540). Trade payables are subject to standard reservations of title.

Bank loans and overdrafts are listed as follows:

TEUR	31.12.2009	31.12.2010
Non-current loans	**58,649**	**43,388**
Current loans	6,979	10,224
Current account liabilities	11,051	9,983
Current liabilities to banks	**18,030**	**20,207**
Bank loans and overdrafts	**76,679**	**63,595**

Receivables sold in asset-backed securities transactions (ABS) amounted to TEUR 12,081 as per December 31, 2010. After deducting a discount of TEUR 2,097, they are included in other current liabilities at a value of TEUR 9,984.

Two of the financing agreements made with credit institutes include so-called "financial covenants". These are prescribed balance sheet minimum values which must be adhered to. Failing this, the promise of the loan can be withdrawn. In 2010, all such requirements were fulfilled.

Bank liabilities as per December 31, 2010 and other liabilities which are long-term and of an exclusively financial nature have the following interest rates and maturity dates:

31.12.2009 TEUR	31.12.2010 TEUR	Interest rate in %	Maturity
478	0	4.45	02.01.2010
250	0	4.73	30.09.2010
174	0	Euribor 1M + 1.20	
1,915	958	5.525	30.08.2011
1,828	1,057	Wibor 3M + 1.75	31.01.2012
2,433	2,521	Wibor 3M + 1.95	31.01.2012
16,000	7,000	4.65	31.12.2014
0	3,000	4.65	31.12.2014
0	3,000	4.65	31.12.2014
0	3,000	4.65	31.12.2014
489	410	Wibor 3M + 2.25	27.02.2015
2,625	0	3.50	
0	2,250	3.00	30.12.2016
10,215	8,731	Euribor 3M + 1.00	31.12.2016
3,750	0	4.98	
0	3,750	3.29	29.03.2018
4,250	0	3.70	
2,115	0	5.62	
5,000	0	4.60	
2,500	0	4.60	
7,500	6,797	5.31	31.03.2018
0	2,344	3.20	31.03.2018
0	4,688	3.20	31.03.2018
4,106	0	3.85	
0	4,106	3.40	30.09.2019
65,628	**53,612**		

39 The other current liabilities are structured as follows:

TEUR	31.12.2009	31.12.2010
Collection commissions	2,519	3,047
Customers with a credit balance	167	62
Other sundry financial liabilities	1,130	1,263
Financial liabilities	**3,816**	**4,372**
Liabilities to employees	3,133	2,127
Social security contributions	155	171
Taxes	602	486
Accruals	4,423	3,114
Other sundry liabilities	**8,313**	**5,898**
Other liabilities	**12,129**	**10,270**

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	2009	2010
Germany	257,025	243,537
Abroad	154,295	149,079
Sales revenues	**411,320**	**392,616**

Turnover can be categorised according to product groups as follows:

TEUR	2009	2010
Fish	205,130	187,877
Fruit and vegetables	105,138	100,683
Ready meals and other products	101,052	104,056
Turnover	**411,320**	**392,616**

41 **b) Other operating income**

Other operating income is structured as follows:

TEUR	2009	2010
Exchange rate profits	4,321	4,929
Income from charged-off accruals	1,318	1,329
Income from credits from previous years and charged-off liabilities	334	211
Income from mineral oil tax refund	545	514
Sundry operating income	1,347	2,186
Other operating income	**7,865**	**9,169**

42 **c) Personnel costs**

Personnel costs are split up as follows:

TEUR	2009	2010
Wages and salaries	49,050	47,054
Social security contributions	8,400	8,561
Pension costs	36	81
Costs of share-related remunerations	45	115
Personnel costs	**57,531**	**55,811**

The personnel costs include severance payments of TEUR 64 (2009: TEUR 55). 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 2009/2010:

	2009	2010
Wage-earners	1,035	972
Salaried staff	420	432
Temporary employees	126	82
Number of employees according to article 314 (1) No. 4 HGB	**1,581**	**1,486**
Apprentices	33	34
Number of employees	**1,614**	**1,520**

43 **d) Depreciation and amortisation**

A breakdown of depreciation and amortisation is as follows:

TEUR	2009	2010
Amortisation of intangible assets	523	559
Depreciation of property, plant and equipment	11,119	11,507
Depreciation and amortisation	**11,642**	**12,066**

44 **e) Other operating expenses**

Other operating expenses are grouped as follows:

TEUR	2009	2010
Storage and transport costs	17,467	17,422
External personnel costs	10,468	9,205
Marketing costs	8,655	8,052
Rent and cold-storage expenses	7,635	6,327
Maintenance	3,826	4,076
Foreign currency exchange losses	6,622	3,913
Fees, contributions and insurance	2,911	3,815
Other expenses	7,521	8,216
Other operating expenses	**65,105**	**61,026**

45 **f) Interest result**

The interest result is divided up as follows:

TEUR	2009	2010
Income from interest on bank balances	55	110
Income from interest swaps	6	182
Income from interest on tax credits	198	22
Other income from interest	61	30
Income from interest	**320**	**344**
Interest paid for bank loans and overdrafts	–3,023	–3,071
Interest expenses from interest swaps	–23	–51
Interest paid for pension reserves	–35	–32
Interest paid for accrued taxes	–231	–81
Anticipated losses from interest rate swaps	–107	0
Anticipated losses from interest rate caps	–1	0
ABS	–496	–188
Other interest paid	–122	–3
Interest and similar expenses	**–4,038**	**–3,426**
Income from interest	**–3,718**	**–3,082**

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	2009	2010
Current german taxes	4,887	4,084
Current foreign taxes	332	628
Current taxes for financial year	**5,219**	**4,712**
Taxes for previous years	1,624	–91
Taxes on income and earnings	**6,843**	**4,621**
Deferred taxes Germany	–1,311	–187
Deferred foreign taxes	–109	–75
Deferred taxes	**–1,420**	**–262**
Tax expenditure according to income statement	**5,423**	**4,359**

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

47 The active and passive deferred taxes resulting from the temporary differences and tax-related loss carry-forwards are divided up as follows:

TEUR	31.12.2009 Active deferred taxes	31.12.2009 Passive deferred taxes	31.12.2010 Active deferred taxes	31.12.2010 Passive deferred taxes
Intangible assets	0	72	0	84
Tangible assets	0	4,983	0	4,880
Inventories	26	128	0	76
Trade receivables	0	17	15	17
Other assets	197	0	200	0
Pension reserves	51	0	61	0
Sundry provisions	441	1	531	0
Trade payables	0	2	0	20
Other liabilities	167	6	225	0
Temporary differences	**882**	**5,209**	**1,032**	**5,077**
Loss carry forwards	**0**	**0**	**0**	**0**
Total	882	5,209	1,032	5,077

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	2009	2010
Result before taxes on income and earnings	**17,435**	**14,207**
FRoSTA AG's tax rate	29.62 %	29.62 %
Expected tax expenditure	**5,164**	**4,208**
Different tax rates especially for deferred taxes)	–1,657	–161
Taxes on income and earnings for previous years	1,624	–91
Tax expenditure for non-deductible operating expenses	366	403
Tax savings from tax-free earnings	–74	0
Tax expenditure according to income statement	**5,423**	**4,359**

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

The 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:

		2009	2010
Consolidated profit for the year	TEUR	**12,012**	**9,848**
Weighted average of issued shares	1,000 shares	6,421	6,468
Consolidated profit for the year per share	EUR	**1.87**	**1.52**

A figure of EUR 1.52 (2009: EUR 1.87) ist reported for the undiluted as well as for the diluted result.

7) Explanatory notes on the Group cash flow statement

49 **Structure of the financial funds**

The financial funds are made up of cash and credit at banks of TEUR 14,987 (2009: TEUR 6,357).

50 **8) Segment reporting**

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

Due to the changes made to IFRS 8.23 in the version of April 2009, we are now required to adapt our segment reporting to correspond with the FRoSTA AG structure (Management Approach). We present FRoSTA AG in two separate distribution sectors. Firstly, the business segment FRoSTA, which includes brand sales in Germany, Eastern Europe and Italy as well as private labels in Italy, Austria and Eastern Europe, and secondly, the COPACK business segment, which is responsible for the private label, industrial and catering businesses as well as for sales to home delivery services in Germany and private labels in the rest of Western Europe. Management only considers the profit development of the segments. A segmented consideration of assets or debts does not take place.

million EUR	Germany 2009	Germany 2010	+/-	Abroad 2009	Abroad 2010	+/-	Total 2009	Total 2010	+/-
Turnover	257.4	243.5	–5.4 %	153.9	149.1	–3.1 %	411.3	392.6	–4.5 %
Operating income	**265.9**	**247.1**	**–7.1 %**	**158.9**	**151.3**	**–4.8 %**	**424.8**	**398.4**	**–6.2 %**
Gross profit in % of turnover	**97.0** 37.7 %	**89.3** 36.7%	**–8.0 %**	**58.2** 37.8 %	**57.3** 38.4 %	**–1.5 %**	**155.2** 37.7 %	**146.6** 37.3 %	**–5.6 %**
Depreciation	–7.6	–7.9	–4.8 %	–4.1	–4.1	–1.5 %	–11.7	–12.1	–3.6 %
Operating result in % of turnover	**15.3** 5.9 %	**10.9** 4.5 %	**–28.7 %**	**5.6** 3.6 %	**6.7** 4.5 %	**20.2%**	**20.9** 5.1 %	**17.7** 4.5 %	**–15.6 %**
Financial result							–3.5	–3.5 %	0.8 %
Result from ordinary business activities in % of turnover							**17.4** 4.2 %	**14.2** 3.6 %	**–18.5 %**
Current taxes							–6.8	–4.6	32.5 %
Deferred taxes							1.4	0.2	–81.5 %
Consolidated profit							**12.0**	**9.8**	**–18.0 %**

million EUR	Segment FRoSTA 2009	Segment FRoSTA 2010	+/-	Segment COPACK 2009	Segment COPACK 2010	+/-	Total 2009	Total 2010	+/-
Turnover	102.9	101.1	–1.7 %	308.4	291.5	–5.5 %	411.3	392.6	–4.5 %
Operating income	**106.2**	**102.6**	**–3.4 %**	**318.5**	**295.8**	**–7.1 %**	**424.8**	**398.4**	**–6.2 %**
Gross profit in % of turnover	**45.8** 44.5 %	**44.1** 43.6 %	**–3.7 %**	**109.3** 35.4 %	**102.4** 35.1 %	**–6.4 %**	**155.2** 37.7 %	**146.6** 37.3 %	**–5.6 %**
Depreciation	–3.2	–3.1	3.9 %	–8.4	–9.0	–6.5 %	–11.7	–12.1	–3.6 %
Operating result in % of turnover	**4.7** 4.6 %	**3.8** 3.8 %	**–18.7 %**	**16.2** 5.3 %	**13.8** 4.7 %	**–14.7 %**	**20.9** 5.1 %	**17.7** 4.5 %	**–15.6 %**
Financial result							–3.5	–3.5	0.8 %
Result from ordinary business activities in % of turnover							**17.4** 4.2 %	**14.2** 3.6 %	**–18.5 %**
Current taxes							–6.8	–4.6	32.5%
Deferred taxes							1.4	0.2	–81.5 %
Consolidated profit							**12.0**	**9.8**	**–18.0 %**

The proportion in the result of revenue from shareholdings in affiliated companies is 2 % (2009: 3 %).

One customer accounts for a turnover of more than 10 % of the total. The exact figure is 46.7 million EUR (2009: 51.7 million EUR) and it is to be found in the domestic and COPACK segment. No other customer made a contribution of 10 % or more of Group turnover in 2009 and 2010.

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9) Other information

a) Primary financial instruments

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

TEUR	31.12.2009		31.12.2010	
	Book value	Fair value	Book value	Fair value
Banks loans and overdrafts	76,679	75,839	63,596	63,469
Other financial liabilities	3,816	3,816	4,372	4,372

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

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b) Contingencies

The FRoSTA Group believes there are no significant contingencies.

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c) Other financial liabilities

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

TEUR	2009	2010
Liabilities from current leasing contracts	1,811	2,678
Liabilities from current leases and maintenance agreements	3,491	3,277
Commitments from expansion investments	681	1,570
Consignment agreements	2,541	2,203
Other financial liabilities	**8,524**	**9,728**

Future payments from lease, maintenance and hire contracts as at December 31, 2010 have the following remaining maturities:

TEUR	< 1 year	1–5 years	> 5 years
Future payments from current leasing contracts	1,020	1,636	22
Future payments from current lease and maintenance contracts	2,029	1,248	0
Total	**3,049**	**2,884**	**22**

Total expenditure from sale and lease back contracts amounted to TEUR 3,754 (2009: TEUR 3,908).

54

d) Group auditor's remuneration

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

	TEUR
Final audit	51
Other valuation services	1
Total	**52**

55

e) Affiliated individuals

Executive Board

Members of the FRoSTA AG's Executive Board in the financial year 2010 were:

> Felix Ahlers, businessman, Hamburg (Chairman)
– As at December 31, 2010: 1,468,610 FRoSTA shares = 22.5 %.

> Hinnerk Ehlers, businessman, Hamburg (Vice President Marketing and Sales)

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

> Jürgen Marggraf, businessman, Bremen (Vice President Operations)

The total number of Executive Board FRoSTA shares as at December 31, 2010 amounts to: 1,528,960 Stück = 23.4 %.

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 2010 were:

> Dr Herbert Müffelmann, solicitor, Bremen (Chairman of the Supervisory Board), membership until 24.06.2010
– Other appointments held by Dr Müffelmann: Supervisory Board Member of Nabertherm GmbH, Lilienthal, and OAS AG, Bremen

> Dirk Ahlers, businessman, Hamburg (Chairman of the Supervisory Board), membership since 24.06.2010
As at December 31, 2010: 2,240,076 FRoSTA shares = 34.3 %.

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

> Jürgen Schimmelpfennig, Chairman of the Works Council of FRoSTA AG, Bremerhaven

The total number of FRoSTA AG shares owned by the Supervisory Board at the balance sheet date is 2,240,076 Stück = 34.3 %.

In the financial year 2010, the Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co., Hamburg, whose partners include Dirk Ahlers, invoiced FRoSTA AG for travel expenses, rentals, goods delivered, commission on commodities sold and other services totalling TEUR 229 (2009: TEUR 303). In the 2010 financial year, FRoSTA AG calculated telephone charges amounting to TEUR 2 (2009: TEUR 3). The balance as per December 31, 2010 amounts to TEUR 22 (2009: TEUR 5).

Lenox Frozen Fruits Ltd, a 100 % subsidiary of the Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co., invoiced FRoSTA AG for goods delivered and commission on commodities sold to a value of TEUR 123 (2009: TEUR 248). As at December 31, 2010 this results in a balance of TEUR 1 (2009: TEUR 0).

In the 2010 financial year, Bio-Frost Westhof GmbH invoiced FRoSTA AG for freight costs and goods delivered to a value of TEUR 1,683 (2009: TEUR 1,577). The balance at December 31, 2010 amounts to TEUR 193 (2009: TEUR 77).

In the 2010 financial year, Columbus Spedition GmbH invoiced FRoSTA AG for freight costs to a value of TEUR 1,603 (2009: TEUR 1,821). The balance at December 31, 2010 amounts to TEUR 49 (2009: TEUR 74).

The consulting services for FRoSTA AG provided by Sozietät Büsing, Müffelmann & Theye, Bremen, amounted to TEUR 64 (2009: TEUR 72). The balance at December 31, 2010 amounts to TEUR 7 (2009: TEUR 12).

Ulf Weisner invoiced for consulting services and travelling expenses to FRoSTA AG worth TEUR 4 (2009: TEUR 1). This amounts to a balance of TEUR 3 (2009: 0) on December 31, 2010.

Dirk Ahlers invoiced for consulting services and travelling expenses to FRoSTA AG worth TEUR 16 (2009: TEUR 0). This amounts to a balance of TEUR 0 (2009: 0) on December 31, 2010.

In the financial year, marketing costs amounting to TEUR 264 (2009: TEUR 0) were invoiced by non-consolidated subsidiaries.

56 **f) Remuneration according to Art. 314 (1) No. 6 HGB**
The total remuneration of the Executive Board for the financial year 2010 amounted to TEUR 2,172 (2009: TEUR 2,445). Of this the fixed remuneration came to TEUR 1,077 (2009: TEUR 1,004) and variable remuneration TEUR 1,095 (2009: TEUR 1,441).

The total remuneration of former members of the Executive Board was TEUR 71 in the financial year (2009: TEUR 70). Pension reserves for former Executive Board members amounted to TEUR 586 on the balance sheet date (2009: TEUR 581).

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

57 **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.

58 **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 12,703,183.73 as per December 31, 2010 be appropriated as follows: a dividend of EUR 0.75 per share equalling a total dividend of EUR 4,898,592.75 be paid to shareholders and that the remaining amount of EUR 7,804,590.98 be allocated to the other revenue reserves.

59 **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 16, 2011

The Executive Board

(F. Ahlers) (H. Ehlers) (Dr S. Hinrichs) (J. Marggraf)

Statement by the Legal Representatives in conformance with Art. 297 (2), sentence 4 and Art. 315 (1), sentence 6 of the German Commercial Code
To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements of FRoSTA AG give a true and fair view of the assets, liabilities, financial position and profit situation of the group, and the Group Management Report includes a fair review of the development and performance of the business and of the position of the Group, together with a description of the main opportunities and risks associated with expected development of the Group.

Bremerhaven, March 16, 2011

The Executive Board

(F. Ahlers) (H. Ehlers) (Dr S. Hinrichs) (J. Marggraf)

Auditors' report

We have audited the consolidated financial statements of FRoSTA Aktiengesellschaft, Bremerhaven, comprising balance sheet, profit and loss account, statement of changes in equity capital, cash flow statement and notes to the consolidated financial statements, as well as its Company and Group management report for the financial year from January 1, 2010 to December 31, 2010. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs, as applicable in the EU, and the additionally applicable commercial provisions in accordance with Art. 315a (1) German Commercial Code (HGB) are the responsibility of the Company's management. Our responsibility is to provide an assessment of the consolidated financial statements and the Group management report based on our audit.

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

Our audit did not reveal any grounds for objection.

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

Bremen, March 16, 2011

Gräwe & Partner GmbH
Wirtschaftsprüfungsgesellschaft · Steuerberatungsgesellschaft

Dr Meyer · Auditor Heuer · Auditor

FINANCIAL STATEMENTS FRoSTA AG

	Notes item	2009 TEUR	2010 TEUR
1. Turnover	(10)	391,331	376,097
2. Reduction of stocks of finished and unfinished products (2009: Increase)		6,064	–3,208
3. Own work capitalised		93	64
4. Other operating income	(11)	7,436	7,190
5. OPERATING INCOME		**404,924**	**380,143**
6. Cost of materials			
a) Raw materials, consumables and goods purchased for resale		–252,864	–241,571
b) Purchased services		–9,420	–9,355
		–262,284	**–250,926**
7. GROSS PROFIT		**142,640**	**129,217**
8. Personnel expenses			
a) Wages and salaries		–43,999	–41,158
b) Social security and other pension costs and for support – thereof for pensions TEUR 35 (2009: TEUR 68)		–7,538	–7,548
		–51,537	**–48,706**
9. Depreciation/amortisation of intangible and tangible fixed assets	(3)	–9,883	–9,104
10. Other operating expenses	(11)	–56,765	–54,710
11. OPERATING RESULT		**24,455**	**16,697**
12. Income from participating interests		141	108
13. Other interest and similar income – thereof from associated companies TEUR 3 (2009: TEUR 199)		505	240
14. Earnings from write-ups in financial assets		0	3,276
15. Depreciation in financial assets		0	–550
16. Interest and similar expenses – thereof to associated companies TEUR 41 (2009: TEUR 17)		–2,895	–2,661
17. Financial result		**–2,249**	**413**
18. RESULT FROM ORDINARY BUSINESS ACTIVITIES		**22,206**	**17,110**
19. Extraordinary expenses	(12)	0	–111
20. Extraordinary result		**0**	**–111**
21. Taxes on income and earnings	(13)	–6,582	–4,072
22. Other taxes		–233	–224
23. PROFIT FOR THE YEAR		**15,391**	**12,703**

ASSETS

	Notes item	31.12.2009 TEUR	31.12.2010 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		981	824
		981	**824**
II. Tangible assets	(3)		
1. Land, land rights and buildings including buildings on land owned by third-parties		23,739	23,197
2. Plant and machinery		18,225	18,020
3. Other plant, operating and office equipment		5,782	6,067
4. Prepayments and assets under construction		373	622
		48,119	**47,906**
III. Financial assets	(3)		
1. Shares in associated companies		7,815	11,092
2. Participating interests		1,593	1,042
3. Long-term securities		6	6
		9,414	**12,140**
		58,514	**60,870**
B. CURRENT ASSETS			
I. Inventories	(2)		
1. Raw materials and consumables		19,682	18,909
2. Work and services in progress		16,522	13,971
3. Finished products and goods purchased for resale		17,566	16,651
4. Down payments		448	281
		54,218	**49,812**
II. Accounts receivable and miscellaneous other fixed assets	(4)		
1. Trade receivables		62,895	63,754
2. Receivabels from associated companies		754	1,484
3. Amounts owed by associated companies – other assets of these outstanding claims: TEUR 3 (2009: TEUR 0)		3,907	3,315
		67,556	**68,553**
III. Cash, bank balances and cheques		**5,240**	**9,737**
		127,014	**128,102**
C. DEFERRED INCOME			
Other accruals and deferrals		937	187
D. ACTIVE DIFFERENCE FROM THE ASSETS CALCULATION	(5)	0	47
BALANCE SHEET TOTAL		186,465	189,206

LIABILITIES

	Notes item	31.12.2009 TEUR	31.12.2010 TEUR
A. EQUITY CAPITAL	(6)		
I. Subscribed capital		**16,514**	**16,721**
II. Capital reserves		**8,697**	**9,363**
III. Revenue reserves			
1. Statutory reserve		200	200
2. Other revenue reserves		37,336	47,916
		37,536	**48,116**
IV. Annual profits		**15,391**	**12,703**
		78,138	**86,903**
B. PROVISIONS			
1. Pension provisions and similar obligations	(7)	592	685
2. Provisions for taxes		3,851	1,876
3. Other provisions	(8)	15,811	13,715
		20,254	**16,276**
C. CREDITORS	(9)		
1. Bank loans and overdrafts		61,541	50,875
2. Trade payables		15,299	25,205
3. Amounts owed to associated companies		5,414	3,581
4. Amounts owed to companies in which a shareholding is held		76	193
5. Other creditors – thereof taxes TEUR 440 (2009: TEUR 562)		5,743	6,173
		88,073	**86,027**
BALANCE SHEET TOTAL		186,465	189,206

MOVEMENT ON FIXED ASSETS FRoSTA AG AS PER DECEMBER 31, 2010	PURCHASE AND MANUFACTURING COST					ACCUMULATED DEPRECIATION, AMORTISATION AND WRITE-DOWNS					NET BOOK VALUE	
	As at 1.1.2010 TEUR	Additions TEUR	Transfers TEUR	Disposals TEUR	As at 31.12.2010 TEUR	As at 1.1.2010 TEUR	Additions TEUR	Appreciation in value TEUR	Disposals TEUR	As at 31.12.2010 TEUR	As at 31.12.2010 TEUR	As at 31.12.2009 TEUR
I. INTANGIBLE ASSETS												
Concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets	**10,805**	**419**	**0**	**0**	**11,224**	**9,824**	**576**	**0**	**0**	**10,400**	**824**	**981**
II. TANGIBLE ASSETS												
1. Land, land rights and buildings including buildings on land owned by third-parties	66,750	1,196	123	160	67,909	43,011	1,850	0	149	44,712	23,197	23,739
2. Plant and machinery	114,655	4,394	238	717	118,570	96,430	4,836	0	716	100,550	18,020	18,225
3. Other plant, operating and office equipment	42,175	2,148	1	608	43,716	36,393	1,842	0	586	37,649	6,067	5,782
4. Prepayments and assets under construction	373	611	–362	0	622	0	0	0	0	0	622	373
	223,953	**8,349**	**0**	**1,485**	**230,817**	**175,834**	**8,528**	**0**	**1,451**	**182,911**	**47,906**	**48,119**
III. FINANCIAL ASSETS												
1. Shares in associated companies	11,543	0	0	0	11,543	3,727	0	3,276	0	451	11,092	7,816
2. Participating interests	1,768	0	0	0	1,768	176	550	0	0	726	1,042	1,592
3. Long-term securities	6	0	0	0	6	0	0	0	0	0	6	6
4. Employer's pension liability insurances	**13,317**	**0**	**0**	**0**	**13,317**	**3,903**	**550**	**3,276**	**0**	**1,177**	**12,140**	**9,414**
	248,075	**8,768**	**0**	**1,485**	**255,358**	**189,561**	**9,654**	**3,276**	**1,451**	**194,488**	**60,870**	**58,514**

FRoSTA Aktiengesellschaft, Bremerhaven

NOTES FOR THE FINANCIAL YEAR 2010 OF FRoSTA AG

1

A. BASIC PRINCIPLES FOR THE FINANCIAL STATEMENTS

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

B. CONVERSION TO THE PROVISIONS OF THE GERMAN ACCOUNTING LAW MODERNIZATION ACT

The effects of changing to the provisions of the Accounting Law Modernization Act (BilMoG) are described in the following paragraphs. Pursuant to the transitional provisions of the Introductory Law of the German Commercial Code (EGHGB), the effects of a change as per 01.01.2010 are reflected – as the case may be – in the extraordinary result or in the revenue reserves.

TEUR	Comment	Effects in the extra-ordinary result	Effects in the revenue reserves
Pensions and similar obligations	a	-108	0
Other reserves	b	–3	27
		–111	**27**

a. Changes in the valuation of pensions and similar obligations

FRoSTA has chosen the option to use as discount rate the average market interest rate determined and published by the Deutsche Bundesbank (German Federal Bank) based on a supposed residual term of 15 years. Any increases in pensions to be expected in future are to be taken into account for the valuation. Due to the change, an addition of TEUR 108 to the item "Pensions and similar obligations" became necessary. This expense was recorded entirely in the extraordinary result in the financial year.

b. Changes in the valuation of other reserves

These are reserves for partial retirement benefit and anniversary obligations. According to the provisions of the BilMoG, reserves with a residual term of more than one year must obligatorily be discounted. The discount rate used was the average market interest rate published by the Deutsche Bundesbank based on a supposed residual term of 15 years.

With respect to the reserves for partial retirement benefit obligations, the changed discount rate led to a slight increase of TEUR 3. These expenses were allocated to the extraordinary result.

As regards anniversary obligations, the effect from the change of the actuarial valuation method (from "entry age normal" to "projected unit credit method") prevailed. The decrease of TEUR 27 resulting therefrom was allocated to the revenue reserves.

Deferred taxes

According to the new accounting provisions of the BilMoG, deferred taxes are to be created on temporary differences between the commercial and fiscal valuations of assets, debts and accruals/deferrals.

TEUR	Active deferred taxes	Passive deferred taxes
Other financial assets	0	12
Other assets	37	0
Accruals and deferrals	197	0
Pension reserves	32	0
Tax reserves	0	1
Other reserves	290	44
Total	**556**	**57**
Balancing	–57	–57
Balance	**499**	**0**

As per 31.12.2009, the active deferred taxes amounted to TEUR 487, the passive deferred taxes amounted to TEUR 13. After the BilMoG was applied for the first time, the active deferred taxes amounted to an additional TEUR 69 as per 01.01.2010, the passive deferred taxes amounted to an additional TEUR 44 at the same date.

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

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

Offsetting plan assets against partial retirement obligations

Assets that are exempt from access by all other creditors and serve exclusively to fulfil the liabilities for partial retirement benefit obligations assigned to these assets must be offset against these liabilities. As a consequence, the presentation of reserves for partial retirement benefit obligations was decreased by TEUR 124. The offset had no effects on the extraordinary result or the reserves.

Provisions for expenses

The option to retain existing provisions for expenses was used for an amount of TEUR 345.

Figures of the previous year

In accordance with the transitional regulations of the BilMoG, an adjustment of the figures of the previous year to the new accounting rules is not necessary.

2

C. ACCOUNTING AND CALCULATION PRINCIPLES

Profit and loss account

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

Fixed assets

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

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

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

A fixed value is assigned to recognized transport pallets.

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

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

Current assets

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

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

Receivables and other assets are shown at nominal value.

Non-payment and credit risks are accounted for by individual or global valuation allowances. The percentage used to calculate the global valuation allowance is 1.0.

Deferred taxes

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

Offsetting assets, income and expenses

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

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

Pensions and similar obligations

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

Other reserves

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

Anniversary and partial retirement benefit obligations are valued in accordance with the recognized principles of actuarial mathematics by means of the so-called "projected unit credit method“ as well as the "cash value method". Any increases of salaries and pensions to be expected for the future are taken into account when the cash value is determined. Since 01.01.2010, the interest rate used for discounting has been the rate published by the Deutsche Bundesbank for a residual term of 15 years. Liability insurance policies have been taken out for partial retirement commitments. For offsetting obligations against assets and for offsetting income and expenses, please refer to section "Offsetting assets, income and expenses".

Liabilities

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

Foreign currency conversion

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

D. COMMENTS ON THE BALANCE SHEET

3 **1. Fixed assets**

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

In this Financial Year, unscheduled depreciation of TEUR 191 (2009: TEUR 0) was carried out with respect to the tangible fixed assets.

For recognized transport pallets, the value has been fixed to TEUR 158 (2009: TEUR 158).

The impairment loss of the purchase and manufacturing costs of fixed assets subsidised due to investment grants and subsidies as per 31.12.2010 amounted to TEUR 2,604 (2009: TEUR 3,059). The release of investment grants and subsidies of TEUR 455 (2009: TEUR 587) directly reduces the gross depreciations.

Participations

FRoSTA AG holds participating interests in the following companies:

Name and headquarters of the company	Share of capital %	Share of subscribed capital TEUR	Equity TEUR	Result for the year 2009 TEUR	Result for the year 2010 TEUR
1. COPACK Tiefkühlkost-Produktionsgesellschaft mbH, Bremerhaven	100.00	256	246	–1	–1
2. ELBTAL Tiefkühlkost Vertriebs GmbH, Lommatzsch	100.00	26	26	0	0
3. FRoSTA Tiefkühlkost GmbH, Bremerhaven	100.00	255	256	1	2
4. FRoSTA Foodservice GmbH, Bremerhaven	100.00	256	261	1	2
5. TIKO Vertriebsgesellschaft mbH, Bremerhaven	100.00	256	263	2	3
6. BioFreeze GmbH, Bremerhaven	100.00	256	254	0	1
7. Feldgemüse GmbH, Lommatzsch	100.00	26	11	0	0
8. FRoSTA Sp. z o.o., Bydgoszcz/Poland	100.00	8,825	10,894	601	1,464
9. FRoSTA France S.a.r.l., Boulogne-Billancourt/France	100.00	153	305	12	11
10. FRoSTA Italia s.r.l., Rome/Italy	100.00	10	207	18	19
11. FRoSTA Tiefkühlkost GmbH, Baden/Austria	100.00	36	281	17	15
12. FRoSTA ČR s.r.o., Prague/Czech Republic	100.00	40	167	–3	–5
13. FRoSTA Hungary Kft., Esztergom/Hungary	100.00	23	17	–31	6
14. FRoSTA Romania S.R.L., Bucharest/Romania	100.00	21	13	–3	–3
15. Copack Sp. z o.o., Bydgoszcz/Poland	100.00	13	9	–1	–1
16. Bio-Frost Westhof GmbH, Wöhrden	45.00	617	1,153	237	178
17. Columbus Spedition GmbH, Bremerhaven	33.33	135	375 [1]	329 [2]	240 [1]

[1] Applies to 2009
[2] Applies to 2008

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

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

The amounts owed by associated companies result from of inter-company supplies and services (TEUR 588) and clearing transactions.

As per December 31, 2010, trade receivables of TEUR 12,081 (2009: TEUR 13,354) were sold in the frame of asset backed security transactions.

Of the other assets, TEUR 997 (2009: TEUR 1,193) have a residual term of more than one year.

The active accruals item includes accruals for disagio amounting to TEUR 0 (2009: TEUR 661).

5 **3. Excess of plan assets over pension liability**

Amounts of TEUR 149 to be paid for partial retirement obligations were offset by assets with a fair value of TEUR 196. This resulted in a surplus, the assets exceeding the obligations for outstanding payments for partial retirement benefits by TEUR 47.

The purchase costs of the assets to be offset amounted to TEUR 198. The assets in question were liability insurances.

6 **4. Equity capital**

On December 31, 2010, the equity capital amounted to EUR 16,720,529.92 and was divided into 6,531,457 no-par value shares. The shares are made out to the bearer.

In accordance with the Shareholders' Resolution of June 24, 2010, a decision was taken to appropriate a sum of EUR 10,553,099.17 from the net profit of 15,391,223.92 to other revenue reserves. Another EUR 26,643.00 were appropriated to the revenue reserves due to the first application of the BilMoG.

On September 20, 2010, the Executive Board took the decision to increase the Company's equity capital by EUR 206,397.44 to EUR 16,720,529.92 by issuing 80,624 bearer shares to employees. At the balance sheet date, 1,100 shares were not yet paid; the settlement was made in January 2011. The increase was made due to the authorization granted to the Executive Board in Art. 4 (3) of the Articles of Incorporation. A resolution passed by the Supervisory Board on September 20, 2010 approved this resolution taken by the Executive Board on the increase of the equity capital. Due to premiums from the issuing of shares, the amount of EUR 666,025.16 was transferred to the capital reserves. In addition to this, there are authorised capital funds as yet unused for a fixed period until June 16, 2014 in the amount of EUR 197,738.24 for issuing shares to the employees of the Company and its associated companies as well as capital funds in the amount of EUR 5,000,000.00 for a fixed period until June 30, 2012 for a capital increase against cash contributions.

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

The amounts to be paid for pension reserves apply only to pensioners already receiving a pension and amounted to TEUR 685 in this financial year (2009: TEUR 592). The actuarial valuation of the amounts to be paid is based on a discount rate of 5.15 % and a rate of pension progression of 2.0 %. The calculation of mortality rates is based on the "Richttafeln 2005 G" by Dr Klaus Heubeck.

8 **6. Other reserves**

The other reserves include reserves for personnel costs amounting to TEUR 4,805. This includes anniversary reserves with a settlement value of TEUR 1,352. The discount rate on which this is based is 5.15 %.

Partial retirement reserves are valued with a settlement value of TEUR 87.

The discount rate is also 5.15 %. The low amount of the reserves is due to the fact that an offset is made with the plan assets amounting to TEUR 203. Since the principle of item-by-item measurement was used for the individual obligations and the corresponding assets, this resulted in a surplus of assets (see Section 3. Excess of plan assets over pension liability) and the creation of provisions for partial retirement obligations.

There are further reserves for collection commissions (TEUR 3,047) and outstanding invoices (TEUR 4,345).

9 **7. Liabilities**

TEUR	Total amount	thereof with a remaining maturity of up to one year	1 – 5 years	more than five years
Bank loans and overdrafts to financial institutions (previous year)	50,875 (61,541)	17,819 (15,541)	25,053 (32,651)	8,003 (13,349)
Trade payables (previous year)	25,205 (15,299)	25,205 (15,299)	0 (0)	0 (0)
Liabilities to associated companies (previous year)	3,581 (5,414)	3,581 (5,414)	0 (0)	0 (0)
Liabilities to companies in which a shareholding is held (previous year)	193 (76)	193 (76)	0 (0)	0 (0)
Other liabilities (previous year)	6,174 (5,743)	6,174 (5,743)	0 (0)	0 (0)
	86,028 (88,073)	**52,972 (42,073)**	**25,053 (32,651)**	**8,003 (13,349)**

The liabilities towards financial institutions are guaranteed by mortgages amounting to TEUR 12,274 (2009: TEUR 17.834) and similar securities amounting to TEUR 5,821 (2009: TEUR 9,155).

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

The liabilities towards associated companies result from intercompany supplies and services (TEUR 1,169) and clearing transactions.

8. Contingencies

FRoSTA AG gave collateral securities towards banks for liabilities of FRoSTA Sp. z o.o. At 31.12.2010, these liabilities had a value of TEUR 12,719 (2009: TEUR 15,139). The company does not expect that these securities will be made use of.

E. COMMENTS CONCERNING THE PROFIT AND LOSS ACCOUNT

10 **1. Turnover**

The turnovers of FRoSTA AG are as follows:

	2009 mill. EUR	2010 mill. EUR	Deviation %
Product sales - Germany - Abroad	287 138	278 136	–3.1 –1.4
	425	**414**	**–2.6**
Sales deductions	34	38	+11.8
	391	**376**	**–3.8**

According to product groups, the turnover is as follows:

	2009 mill. EUR	2010 mill. EUR	Deviation %
Fish	187	170	–9.1
Vegetables and fruit	102	100	–2.0
Ready meals and other products	102	106	+3.9
	391	**376**	**–3.8**

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

The profit and loss account of FRoSTA AG includes income for other accounting periods of TEUR 2,442 (2009: TEUR 2,995) and expenses for other accounting periods in the amount of TEUR 480 (2009: TEUR 471). The income for other accounting periods is mainly due to charge-off of advertising subsidies and bonus payments, the write-back of personnel reserves and other reserves.

12 **3. Extraordinary expenses**

Application of the BilMoG provisions led to expenses amounting to TEUR 111. The individual effects of the conversion to the BilMoG rules are shown in section "Basic principles of the financial statement". In the previous year, there were no transactions to be presented in the extraordinary result.

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

This item includes, among other things, tax yields of TEUR 8 for other accounting periods (2009: TEUR 1,696 of tax expenses for other accounting periods).

According to the new accounting rules laid down in the BilMoG, deferred taxes are to be created on the temporary differences between the commercial and fiscal valuation rates of assets, debts and accruals and deferrals.

TEUR	01.01.2010	01.01.2010	31.12.2010	31.12.2010
	Active deferred taxes	Passive deferred taxes	Active deferred taxes	Passive deferred taxes
Intangible assets	0	0	0	4
Tangible assets	0	0	0	111
Other financial assets	0	12	0	12
Other assets	37	0	60	0
Accruals and deferrals	197	0	169	0
Pension reserves	32	0	31	0
Tax reserves	0	1	0	0
Other reserves	290	44	207	0
Trade payables	0	0	0	23
Total	**556**	**57**	**467**	**150**
Balancing	–57	–57	–150	–150
Balance	**499**	**0**	**317**	**0**

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

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

F. OTHER INFORMATION

14 1. Other financial liabilities

FRoSTA AG has the following other financial liabilities:

TEUR	31.12.2009	31.12.2010
Liabilities under current leasing contracts	1,352	2,345
Liabilities under current tenancy and maintenance contracts	3,234	2,985
Purchase commitment from expansion investments	608	814
Consignment agreements	2,541	2,203
	7,735	**8,347**

As at December 31, 2010 the following remaining maturities apply to future payment liabilities from hire, maintenance and leasing contracts:

TEUR	< 1 year	1–5 years	> 5 years
Future payments from current leasing contracts	799	1,524	22
Future payments from current rental and leasing contracts	1,867	1,118	0
Purchase commitment from expansion investments	814	0	0
Consignment agreements	2,203	0	0
	5,683	**2,642**	**22**

15 2. Hedging transactions/derivatives

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

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

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

Financial instrument	Type	Volume	Fair value TEUR
Call options	Purchase TUSD Sale TGBP	19,800 1,120	–161 –13
Foreign exchange swaps	Purchase TUSD Purchase TGBP Sale TGBP	19 36 370	0 0 0
Interest-rate swaps	Loan TEUR	18,298	–476

16 3. Auditor's remuneration and services

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

17 4. Number of Employees

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

	2009	2010
Wage-earners	641	628
Salaried staff	320	328
Temporary staff	126	82
No. of employees according to Art. 285 no 7 HGB	1,087	1,038
Apprentices	33	34
	1,120	1,072

18 5. Executive Board

Members of the Executive Board of FRoSTA AG in financial year 2010 were:

- Felix Ahlers, businessman, Hamburg (Chairman)
  As at December 31, 2010: 1,468,610 FRoSTA shares = 22.5 %.
- Hinnerk Ehlers, businessman, Hamburg (Vice President Marketing and Sales)
- Dr Stephan Hinrichs, businessman, Bendestorf (Vice President Finance and Administration)
- Jürgen Marggraf, businessman, Bremen (Vice President Operations)

The total number of FRoSTA shares held by the Executive Board on December 31, 2010 amounts to 1,528,960 shares = 23.4 %.

19 6. Supervisory Board

Members of the Supervisory Board of FRoSTA AG in financial year 2010 were:

- Dr Herbert Müffelmann, solicitor, Bremen (Chairman of the Supervisory Board), member until 24.06.2010
  Further appointments held by Dr Müffelmann: Member of the Supervisory Board of Nabertherm GmbH, Lilienthal, and OAS AG, Bremen
- Dirk Ahlers, businessman, Hamburg (Chairman of the Supervisory Board), member since 24.06.2010
  As at December 31, 2010: 2,240,076 FRoSTA shares = 34.3 %.
- Ulf Weisner, Businessman, Ratingen-Lintorf (Deputy Chairman of the Supervisory Board)
- Jürgen Schimmelpfennig, Chairman of the Works Council of FRoSTA AG, Bremerhaven

The total number of shares of FRoSTA AG held by the Supervisory Board at the balance sheet date amounts to 2,240,076 shares = 34.3 %.

20 7. Remuneration according to Art. 285 No. 9 HGB

The total remuneration of the Executive Board of FRoSTA AG in the financial year amounted to TEUR 2,172 (2009: TEUR 2,445). The fixed remuneration amounted to TEUR 1,077 (2009: TEUR 1,004) and the variable remuneration amounted to TEUR 1,095 (2009: TEUR 1,441).

The total remuneration of the former members of the Executive Board of FRoSTA AG in the financial year amounted to TEUR 71 (2009: TEUR 70). The pension reserves for former members of the Executive Board amounted to TEUR 570 (2009: TEUR 491) at the balance sheet date.

The remuneration of the Supervisory Board amounted to TEUR 62 (2009: TEUR 60), the variable remuneration amounting to TEUR 48 (2009: TEUR 46) and the fixed remuneration amounting to TEUR 14 (2009: TEUR 14).

21 8. Declaration of Compliance according to Art. 161 of the German Stock Corporation Act (AktG)

The Executive Board and the Supervisory Board issued a declaration of compliance as required in Art. 161 AktG, which has been made permanently available to the shareholders on the company's website www.frosta-ag.com.

22 9. Appropriation of profits

We will be proposing to the General Meeting of Shareholders that the net profit for the year amounting to 12,703,183.73 as per December 31, 2010 be appropriated as follows: a dividend of EUR 0.75 per share equalling a total dividend of EUR 4,898,592.75 be paid to shareholders and that the remaining amount of EUR 7,804,590.98 be allocated to the other revenue reserves.

Bremerhaven, March 16, 2011
The Executive Board

(F. Ahlers) (H. Ehlers) (Dr S. Hinrichs) (J. Marggraf)

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

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

Bremerhaven, March 16, 2011
The Executive Board

(F. Ahlers) (H. Ehlers) (Dr S. Hinrichs) (J. Marggraf)

Auditors' report

We have audited the financial statements of FRoSTA Aktiengesellschaft, Bremerhaven, comprising the balance sheet, the profit and loss account, the notes to the financial statements as well as its Company and Group management report for the financial year from January 1, 2010 to December 31, 2010. Accountancy and presentation of financial statements and management report according to German commercial regulations are the responsibility of the Company's Executive Board. Our responsibility is to provide an assessment the financial statements, including accountancy and management reports, based on our audit.

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

Our audit did not reveal any grounds for objection.

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

Bremen, March 16, 2011

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 governance declaration

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. Our statutes allow the Executive Board to grant shareholders the right to vote by post.

– 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 2009 for two years. The Supervisory Board will be reelected at the Annual General Meeting in 2011. The employees' representative is elected until 2014.

The Supervisory Board appoints the members of the Executive Board. In so doing, it pays attention to the Board Members' personal suitability for the tasks as well as their diverse backgrounds. The Members should possess the necessary skills, knowledge and experience to carry out their tasks appropriately. Their selection is geared to the specific demands of the Company. The Supervisory Board monitors and advises the Executive Board in the management of the Company. Major decisions by the Executive Board require approval by the Supervisory Board. 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 has an independent financial expert in the person of Mr Weisner. The Supervisory Board approves and passes the Group 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 of compliance given by the Executive Board and the Supervisory Board according to Art. 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/InvestorRelations.

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 2010 as well as in the current business year 2011 until the withdrawal of the FRoSTA share quotation at the regulated market with the following exception:

The remuneration received by the members of the Executive and Supervisory Boards is not shown individually in the notes to the consolidated financial statements as we consider the summarised publication of payments made to the boards to be sufficient. The remuneration of the Supervisory Board includes a success-related component which is linked to the dividend payment. We consider these structures as a solid foundation for the Company's short and long-term success. There is no age-limit for Executive and Supervisory Board members as we do not consider the competence and commitment of board members to be dependent on age.

The Executive Board and Supervisory Board hereby declare that a D&O insurance policy has been taken out. The fixed deductible applied complies with legal requirements.

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 (severance payment cap) 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. A severance payment cap of two years makes a three or five-year contract absurd, and results in a desirable contract for the company becoming unattractive to the Board member in question. Our contracts include a clause which stipulates a ceiling on variable payments.

The total remuneration of former members of the Executive Board at FRoSTA AG and in the Group amounted to TEUR 71 in the business year (2009: TEUR 70).

Year	Basic remuneration TEUR	Success-related bonus TEUR	Total TEUR
2009	14	46	60
2010	14	48	62

The members of the Supervisory Board receive remuneration that comprises:

- a 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.

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 2010 with Company shares and published accordingly:

Date	Name	Type of transaction	Price per share	Number of shares	Total value
06.01.2010	Dr Stephan Hinrichs	Share purchase	16.40 EUR	500	8,200.00 EUR
24.03.2010	Jürgen Marggraf	Share purchase	18.00 EUR	1,000	18,000.00 EUR
06.04.2010	Dr Stephan Hinrichs	Share purchase	20.10 EUR	300	6,030.00 EUR
06.04.2010	Dr Stephan Hinrichs	Share purchase	19.95 EUR	500	9,975.00 EUR
06.04.2010	Dr Stephan Hinrichs	Share purchase	20.12 EUR	500	10,060.00 EUR
06.04.2010	Dr Stephan Hinrichs	Share purchase	20.10 EUR	700	14,070.00 EUR
30.06.2010	Dr Stephan Hinrichs	Share sale	18.32 EUR	30,000	549,600.00 EUR
30.06.2010	Felix Ahlers	Share purchase	18.32 EUR	15,000	274,800.00 EUR

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. Ulf Weisner and Dirk Ahlers sit on the committee.

The members of the Executive Board receive remuneration that comprises:

- a fixed annual basic remuneration, paid out monthly.
- a remuneration paid by shares issued in the frame of the employee participation programme (only for some members of the Executive Board).
- 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.
- a long-term bonus payment based on the three-year average ROI of FRoSTA AG (for some members of the Board only).

Year	Basic remuneration TEUR	Remuneration for share purchase TEUR	Remuneration in the form of company shares TEUR	Variable remuneration TEUR	Insurances TEUR	Total TEUR
2009	996	170	0	1,271	8	2,445
2010	1,067	0	195	900	10	2,172

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 %.

The following Members of the Supervisory Board hold more than 1 % of FRoSTA AG shares: Dirk Ahlers: 34.3 %

The following Members of the Executive Board hold more than 1 % of FRoSTA AG shares: Felix Ahlers: 22.5 %

Bremerhaven, March 16, 2011

The Executive Board

								IFRS	HGB		
FINANCIAL YEAR		**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Employees (average)	number	1,520	1,614	1,539	1,372	1,248	1,167	1,138	1,118	1,162	1,214
Turnover	(mill. EUR)	393	411	392	349	307	269	264	262	284	299
EBITDA	(mill. EUR)	29.8	32.5	32.0	30.2	27.4	26.1	25.8	6.0	19.2	23.4
Depreciation	(mill. EUR)	12.1	11.6	11.2	10.9	10.8	10,9	10.4	10.7	10.9	14.5
EBIT	(mill. EUR)	17.7	20.9	20.8	19.3	16.6	15.2	15.4	–4.7	8.3	8.9
Return on sales (related to operating result) [1]		4.5%	5.1%	5.3%	5.5%	5.4%	5.7%	5.8%	–1.8%	2.9%	3.0%
Result from ordinary business activities	(mill. EUR)	14.2	17.4	17.7	16.6	14.6	13.5	12.9	–7.4	5.2	4.6
Taxes on income	(mill. EUR)	4.4	5.4	5.6	4.4	4.2	5.1	5.1	0.0	2.5	1.6
Group result for the year	(mill. EUR)	9.8	12.0	12.1	12.2	10.4	8.4	7.8	–7.7	2.3	2.8
Cash flow	(mill. EUR)	21.8	25.1	25.7	20.0	17.6	17.8	24.8	3.9	13.2	17.6
Investments	(mill. EUR)	10.7	12.1	25.7	20.0	7.7	5.8	6.6	6.4	8.4	8.6
Shares	number	6,531,457	6,450,833	6,413,386	6,373,673	6,338,389	6,303,316	6,277,965	6,265,203	6,254,233	6,244,241
Total dividend	(TEUR)	4,899	4,838	4,810	4,207	3,803	3,152	1,256	0	2,502	2,498
Dividend per share	(EUR)	0.75	0.75	0.75	0.66	0.60	0.50	0.20	0.00	0.40	0.40
Income per share	(EUR)	1.52	1.87	1.89	1.93	1.64	1.33	1.24	–1.23	0.36	0.44
Fixed assets	(mill. EUR)	81.5	82.9	88.4	75.9	66.7	68.8	73.7	57.3	63.8	66.3
Current assets	(mill. EUR)	144.0	140.2	148.9	129.1	107.3	95.0	61.4	59.8	68,4	63.7
Equity capital [2]	(mill. EUR)	101.2	94.8	87.0	80.2	70.4	62.7	55.1	31.5	39.8	41.0
Equity ratio [3]		44.9%	42.5%	36.6%	39.1%	40.5%	38.1%	34.3%	22.1%	25.5%	25.2%
Amounts owed to credit institutions	(mill. EUR)	63.6	76.7	86.3	69.6	49.5	44.5	28.8	42.7	42.5	46.8
Credit capital ratio [4]		28.2%	34.4%	36.4%	34.0%	28.4%	27.0%	17.9%	30.0%	27.3%	28.8%
Return on investment [5]		9.3%	10.8%	11.4%	12.2%	11.7%	10.9%	12.3% (HGB)	–3.6%	5.9%	6.0%
Return on equity [6]		14.0%	18.4%	20.4%	20.7%	20.7%	21.5%	23.4%	–24.4%	12.1%	10.7%

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,

The year 2010 was not as successful for FRoSTA AG as the previous year. The Company suffered a 4.5 % drop in Group turnover and achieved a lower Group profit than in 2009. The decline was mainly due to the lower sales prices, which the Executive Board was forced to accept in view of the fierce competition and in spite of higher prices for raw materials. Faced with such a difficult environment, the Executive Board and the Supervisory Board are nevertheless satisfied with the overall business devlopment.

The Supervisory Board met on four occasions during the financial year 2010. The Committee for Personnel and Finances, consisting of the Supervisory Board members Dr Müffelmann (until 24.6.2010, since 24.6.2010 Dirk Ahlers) and Weisner, had three meetings. The Supervisory Board and the Committee discussed the financial statement of the previous year during a joint session on March 18, 2010.

Once again, 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 Executive Board continuously kept informed the Chairman of the Supervisory Board (until 24.6.2010 Dr Müffelmann, since 24.6.2010 Dirk Ahlers). 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.

As in previous years, the Supervisory Board's main focus was on raw material supply, raw material prices, currency fluctuations against the US Dollar, as well as the competitve market, which was marked by aggressive pricing policies, especially by two competitors who are de facto state-owned. The Supervisory Board is convinced that the Executive Board and the staff it appointed purchased raw material prudently and professionally to avoid the risks of currency fluctuation. The Supervisory Board advised the Executive Board to implement the necessary sales price increases to combat the increased raw material costs.

The Supervisory Board welcomes the fact that liabilities with credit institutes could be further reduced from about 77 million EUR to approximately 64 million EUR. Discretionary funds now amount to 15 million EUR.

In its December meeting on December 16, 2010, the Supervisory Board examined the planning proposal presented by the Executive Board for 2011. It was approved after consultations with the Executive Board. The Supervisory Board also approved the Executive Board's investment proposals for the current year. These investments do not require the taking out of long-term loans. The discretionary cash is sufficient to finance the investment proposals as well as the ongoing business.

The financial crisis is not yet completely overcome, and so the Supervisory Board welcomes FRoSTA AG's stable financial situation.

There were no changes in personnel made to the Executive Board in 2010. As in previous years, the Supervisory Board reviewed and in some cases adjusted Executive Board remuneration during its December session on December 16, 2010.

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 the consolidated statement and issued unqualified audit certificates. The management report received the unqualified audit ceritificate.

The auditor's report was submitted to the members of the Supervisory Board in good time. It was discussed initially by the Committee for Personnel and Finances and then thoroughly by the whole Supervisory Board in the presence of the auditors on March 24, 2011. The auditors fulfilled the Supervisory Board's request for detailed explanations of some balance sheet items. The Supervisory Board declares that, having completed its assessment, it has no objections either to the consolidated and individual financial statements as per December 31, 2010, nor to the management report of 2010. For this reason, the Supervisory Board has unanimously approved and passed the individual and Group financial statements prepared by the Executive Board.

The Supervisory Board 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 difficult business year 2010.

Hamburg, March 24, 2011

For the Supervisory Board
Dirk Ahlers

SUPERVISORY BOARD

Dr Herbert Müffelmann (till 24.6.2010)
Bremen
Solicitor, Chairman

Dirk Ahlers (since 24.6.2010)
Hamburg
Buisinessman , Chairman

Jürgen Schimmelpfennig
Bremerhaven
Fitter

Ulf H. Weisner
Ratingen-Lintorf
Buisinessman, Deputy chairman

EXECUTIVE BOARD

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Hamburg
Chairman

Hinnerk Ehlers
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Dr Stephan Hinrichs
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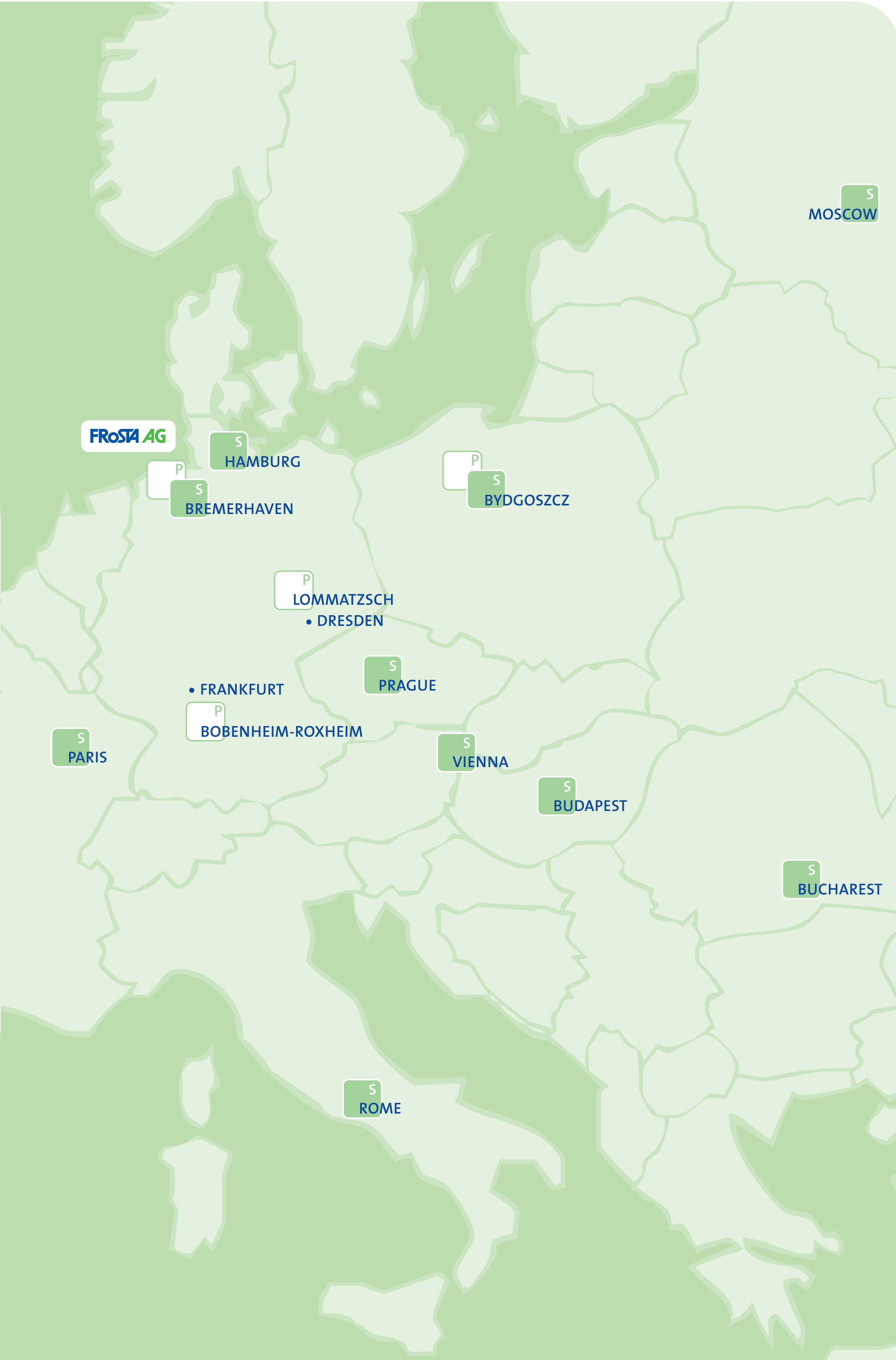

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