We tell it like it is.

What it says on the outside is what you'll find inside: additive-free figures for 2017.

Positive figures

More employees

FRoSTA AG

Annual Report 2017

KEY FIGURES FOR THE FRoSTA GROUP

Key figures for the FRoSTA Group

Business year		2016	2017
Employees (average)	amount	1.665	1.709
Revenue	mEUR	466	501
EBIT	mEUR	31,6	34,9
EBIT in % of revenue		6,8%	7,0%
Consolidated profit/loss	mEUR	21,6	23,4
Capital expenditure	mEUR	26,0	39,1
Dividend per share	EUR	1,50	1,60

FINANCIAL CALENDAR

Financial Calendar

Event	Date
Presentation of Annual Results Bremerhaven	Thursday, 22 March 2018
Annual General Meeting Bremerhaven Civic Centre Wilhelm-Kaisen-Platz 27576 Bremerhaven	Friday, 22 June 2018
Half-yearly financial report 2018	Friday, 27 July 2018

mEUR = millions of euros; kEUR = thousands of euros

CONTENT

LETTER TO OUR SHAREHOLDERS

"Having worked as a chef in a restaurant in Rome many years ago, I believe Italian cuisine is the best in the world because it is simple but at the same time the quality of the ingredients is essential. The acquisition of the "La Valle degli Orti" brand will allow us to expand our business in Italy."

Felix Ahlers, Chairman of the Executive Board

Dear shareholders,

2017 was a good year for FRoSTA. Our brand business together with Foodservice witnessed a particularly positive development in 2017. We posted double-digit growth for the fourth consecutive year in this segment and thus strongly outperformed the market.

This positive development shows that our decision taken in 2003 – to abstain from using additives and to ensure transparency for the consumer, based on a sustainable business philosophy – is becoming increasingly relevant for an increasing number of people.

This is also acknowledged by the jury of the German Sustainability Award Foundation. From all the winners of the past 10 years we were picked to receive the Anniversary Prize.

A detailed review of our sustainability activities will be presented in 2019 when we publish our second sustainability report.

The acquisition of the Italian frozen food brand "La Valle degli Orti" positions us to significantly expand our activities in Italy.

"Profitable growth and a healthy balance sheet structure are important to us to ensure that FRoSTA continues to be a reliable and independent partner."

Maik Busse, Vice President Business Partnering and Administration

"Winning the German Sustainability Award again in 2017 is an incentive and a motivation for us all to maintain our position as pioneer in the industry and beyond!"

Hinnerk Ehlers, Vice President Marketing, Sales and Human Resources

In the first 6 months after the takeover, this business already brought us around an additional EUR 15m in revenue and for the first time saw us cross the EUR 500m revenue threshold.

We would like to take this opportunity to thank all our employees for their excellent work and great commitment and with your help we look forward to tackling the challenges that await us in 2018.

We would like to thank our customers for their loyalty and you, our shareholders, for the trust you have placed in us. We look forward to welcoming you to our Annual General Meeting in Bremerhaven on 22 June 2018.

Yours,

Felix Ahlers | Maik Busse | Hinnerk Ehlers | Jürgen Marggraf

"A company that does not shy away from investment – and there can be no doubt that that applies to us – believes in its vision and its successful future."

Jürgen Marggraf, Vice President Operations, Vice Chairman

OUR MISSION: EXCELLENCE FOR OUR CUSTOMERS

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

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

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

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

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

Simplicity in our processes and clear priorities improve our efficiency.

ABOUT FRoSTA AG

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

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

1,709 EMPLOYEES IN **8** COUNTRIES

Since autumn 2015, we have included this information on all of our product packaging as well.

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

→ CLICK HERE FOR MORE INFORMATION.

Production   Sales

OUR BUSINESS

VEGETABLES, FRUIT AND HERBS FROM OUR OWN AND PARTNER FARMS

Vegetables Fruit Herbs

FISH, READY MEALS AND VEGETABLES

Fish Ready Meals Vegetables

MARKENGESCHÄFT

FRoSTA brand with Purity Command

tiko brand – Fish and meals

Elbtal brand – Vegetables

La valle Degli Orti brand – Vegetables

Mare Fresco brand – Fish

Surgela brand – Fish

HANDELSMARKENGESCHÄFT

FRoSTA AG

copack®
Production partner according to customer requirements

NON-RETAIL-BUSINESS

FRoSTA FOOD SERVICE

MANAGEMENT BODIES

SUPERVISORY BOARD

Dirk Ahlers
Hamburg
Businessman
Chairman

Oswald Barckhahn
Amsterdam/Netherlands
Businessman
Vice Chairman

Jürgen Schimmelpfennig
Bremerhaven
Machine Fitter

EXECUTIVE BOARD

Felix Ahlers
Hamburg
Chairman

Maik Busse
Bremerhaven

Hinnerk Ehlers
Hamburg

Jürgen Marggraf
Bremerhaven
Vice Chairman

HI THERE, WE'RE NEW!

NEW FRoSTA PRODUCTS IN 2017

The 12 new products that we launched in 2017 are of course also subject to the strict FRoSTA Purity Command. Our products have been consistently free from all additives and flavourings since 2003. Since 2016, we have also included the country of origin of all ingredients on our packaging.

Veggie Packs

Our new vegan dishes bring plenty of variety to your menu. Chili con Quinoa is our new take on a true classic. But if you're after something a little more exotic, why not give our new sweet potato stir fry with pineapple or the couscous with chickpeas & cranberries a try?

→ THREE VARIETIES OF VEGETARIAN STIR-FRY DISHES

Traditional vegetables

This year at FRoSTA, as well as 'Butter bei die Fische' as we say here in the North, we're suggesting you try it with your vegetables, too. The two new additions to our range of traditional vegetables are good examples of how well these go together. Our mixed beans are flavoured with a herb butter and the cauliflower-beans-carrots mix comes with a delicious pumpkin seed butter.

→ TWO VARIETIES OF TRADITIONAL VEGETABLES

Vegetable stir-fries

Our new veggie stir-fries with superfoods are super new and super yummy. The vegetable stir-fry with chickpeas & cranberries and the vegetable stir-fry with courgette & quinoa are the new kids on the block since October 2017. But two old favourites have also been given a makeover. As well as an updated recipe, the product name is now also more transparent. The ingredients in the name tell you at a glance what's in the recipe for our pepper vegetable stir-fry and vegetable stir-fry with curry and coconut. No more guessing what's hidden behind Balkan vegetables and Caribbean vegetables

→ FOUR VARIETIES OF VEGETABLE STIR-FRIES

Fish fillet portions

With these three delicious new varieties of fillet portions you're really spoilt for choice. What's it to be: crispy spinach, Mediterrano or cheesy leek? We recommend you simply try all three!

→ THREE VARIETIES OF FISH FILLET PORTIONS

FROM BREMERHAVEN TO THE REST OF THE WORLD
OUR EFFORTS IN 2017

In December 2017, FRoSTA was selected by the German Sustainability Award Foundation from among all the winners of the past 10 years to receive its Anniversary Prize. The jury commended FRoSTA for its outstanding pioneering work campaigning transparency and sustainability in the food industry. To us, this prize represents a commitment for the future: we intend to continue to champion environmental protection, sustainable production of our ingredients and involvement in social projects.

Jubiläumspreis
10 Jahre DNP
Preisträger

Start of our education project in Ecuador together with Plan International

For many years we have sourced our broccoli from Ecuador's Cotopaxi province, where it grows under ideal climatic conditions at an altitude of over 2,000 metres. We feel we have a special responsibility to make a contribution towards improving the living conditions for people in this region. Together with the children's aid organisation Plan International Germany, we have therefore initiated a two-year education programme through which we assist around 200 young people aged between 14 and 19 with implementing their own business ideas. The young men and women receive additional support in the form of micro credits for their business start-ups, which it is hoped will contribute to the positive development of the local economy to the benefit of all members of the five project communities.

Cooking beyond your plate

ÜBERDENTELLERRAND
COMMUNITY BREMERHAVEN

Since 2016, FRoSTA has supported the initiative "Über den Tellerrand kochen" ('cooking beyond your plate') and is co-founder and main sponsor of the Bremerhaven 'satellite'. With this, we hope to help refugees in Bremerhaven with their integration. At "Über den Tellerrand", refugees and citizens of Bremerhaven come together on an equal footing, cook together in the FRoSTA Culinary School in the "Klimahaus" and like this get to know something about the respective other cuisine and culinary traditions. In 2017, over 700 people from all over the world met at 16 cooking events in Bremerhaven.

JANUARY

FEBRUARY

> Only people who can cook will appreciate good food all their lives."

Felix Ahlers, head chef at FRoSTA

Knowing where it's from

In 2015, we started printing the country of origin of all of our ingredients directly on the product packaging. Since February 2017, we have also been able to implement this for all of our fish products, too. This makes us the first and only food brand to specify the country of origin of all ingredients on the packaging.

Children in the kitchen!

Not even an instant stock cube is allowed: at the FRoSTA Culinary School in Bremerhaven's Klimahaus children learn how to turn simple ingredients into a delicious meal – completely without ready-made products. Even if it comes hard to us – at the FRoSTA Culinary School, you therefore won't find a FRoSTA bag anywhere in sight. Instead, there's no end of seasonal fresh ingredients that wherever possible have been locally sourced. The aim of our Culinary School is to ensure that at our largest location in Bremerhaven, every child gets the chance to learn to cook. In March, the Bertelsmann Foundation honoured this with its "Mein Gutes Beispiel" ('My Good Example') award.

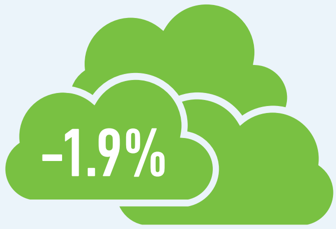
Mein gutes Beispiel

FEBRUARY

MARCH

Our environmental and climate targets

Back in 2008, we began to determine the carbon footprint of our products and assess the impact our company's operations have on the environment. We set ourselves targets and report on the results. You can find our targets for the next few years here.



Total CO_2
(in t CO_2e/t finished product; 2017/2013)

Let's be honest!

Our FRoSTA Purity Command is at the focus of our latest TV campaign. This is all about transparency, unnecessary additives and real ingredients. Because if you want an authentic taste, you have to use real ingredients. In 2003, we decided to completely stop using any additives or flavourings in our products – irrespective of weather they belong to the "E-numbers" and are subject to declaration or not. At FRoSTA, the great taste is the result of great ingredients – no more, no less: real butter, real cheese, real cream, homemade noodles, fresh-picked vegetables and shock-frozen freshly caught fish. THAT's what good, honest food is all about!

Honesty is the best policy

EHRLICH ISST BESSER
Initiative für ehrliche Zutatenlisten.

FRoSTA supports the online petition "Ehrlich isst besser ('Honesty is the best policy') – initiative for honest lists of ingredients" initiated by the German Food Additives Museum. The petition calls on policy-makers to meet three concrete demands for more transparency in food labelling: "We support this petition because current food laws prevent consumers from distinguishing between products of very different quality. A look at what goes on behind the scenes and hence vital information is currently only available to the producers or additive suppliers themselves," Felix Ahlers, Chairman of FRoSTA AG's Executive Board, explains.

AUGUST

SEPTEMBER

-1.6%

Electricity consumption (in kWh/t finished product; 2017/2013)

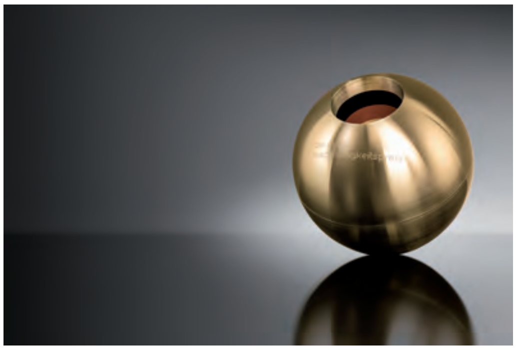
-7.5%

Fuel emissions (in t CO_2e/t finished product; 2017/2013)

-6.8%

Employee business travel (in passenger km/t finished product; 2017/2013)

CO_2e: carbon dioxide equivalent



Social standards are not negotiable!

In October 2017, we were holding our first Supplier Day with over 100 guests from 18 different countries in Bremerhaven. The day focused on "Social standards" in the supply chain and on the high standards set by our FRoSTA Purity Command. We want to get all our suppliers on board in engaging with these issues. By 2020, our suppliers from BSCI risk countries must be Sedex members and certified in accordance with an internationally recognised social standard (SMETA, BSCI, SA8000). To this end, we will carry out unannounced social audits at all non-certified suppliers from these countries.

FRoSTA wins German Sustainability Award Foundation's Anniversary Prize

On 8 December 2017, the German Sustainability Foundation's 10-year Anniversary Prize was awarded in Düsseldorf and to our great delight FRoSTA was selected as the winner from among the 63 previous Sustainability Award winners. Hinnerk Ehlers: "This prize is really very special, because it honours all our efforts of the past several years in the area of sustainability. We can and should all be proud of this prestigious prize. At the same time, it is an incentive and a motivation for us all to maintain our position as pioneer in the industry and beyond!"

OCTOBER

DECEMBER

CONSOLIDATED MANAGEMENT REPORT

Since we introduced our Purity Command back in 2003, only real ingredients have found their way into our packs, into your frying pan – and onto your plate. The FRoSTA Purity Command means: free from E-numbers, flavourings and any other additives.

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

BUSINESS ENVIRONMENT AND GENERAL CONDITIONS

BUSINESS STRUCTURE

AT FRoSTA, OUR SUCCESSFUL BUSINESS STRUCTURE WAS RETAINED IN 2017.

3 OPERATING SEGMENTS

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

9 SALES OFFICES

HAMBURG
BREMERHAVEN
BYDGOSZCZ
PARIS
ROME
PRAGUE
BUCHAREST
BUDAPEST
MOSCOW

4 PRODUCTION PLANTS

VEGETABLES AND HERBS FROM OUR OWN CULTIVATION IN LOMMATZSCH AND BOBEN-HEIM-ROXHEIM

FISH, READY MEALS AND VEGETABLES IN BREMERHAVEN AND BYDGOSZCZ/POLAND

EMPLOYEES

Employees

	2016	2017
FRoSTA head office	**210**	**224**
Administration	127	131
Sales	83	93
FRoSTA production facilities	**1,455**	**1,485**
Bremerhaven	549	583
Bydgoszcz	603	581
Lommatzsch	162	179
Bobenheim-Roxheim	141	142
Group total	**1,665**	**1,709**

We again increased the number of our employees in 2017, adding 44 new members of staff to the payroll. An additional 14 employees support the integration of the new Italian brand business. In our production facilities as well, demand led to more new recruitments.

Total personnel expenses in 2017 increased by 6.8% to a level of EUR 73.0m. This is accounted for with 3.8 percentage points by the increase in the number of employees.

Raising the proportion of women in management positions is an issue we take very seriously, although we unfortunately recorded no progress here compared to the previous year. In 2017, the proportion of women in first-level management was 25% (2016: 27%) and in second-level management 35% (2016: 34%), with a total share of women employed at FRoSTA amounting to 37% (2016: 40%).

One of the top priorities at FRoSTA in coming years will be to develop modern working hours models that make it easier to reconcile family and a career. Therefore, in those operating segments where it is possible, we are moving towards more flexible working time arrangements, including defining rules for home office activities.

Through our education and trainee programme we train our own future employees, with the aim of filling future vacancies with junior staff from within our own ranks. We have made this one of our top priorities at FRoSTA. We offer vocational training opportunities at all three locations in Germany with a total of 8 different apprenticeships. In the financial year 2017, we increased the number of apprentices by 4 to 34 and have a takeover of more than 80%.

We place great emphasis on continuous learning. Which is why we invest on an ongoing basis in the training and ongoing education of our employees in all areas. We are proud that we were again able to maintain the high level of training programmes on offer for our employees in 2017.

Communication with one another is our key to success. Nowhere is this truer than for internal communication between our international locations. For many activities, we therefore expect our staff to have a good command of English. As part of our vocational training programme, we support our employees in their daily work routines by offering a wide range of language courses at all levels.

One important aspect of our training measures in 2017 again focused on our corporate culture and our shared values and ground rules. We want to ensure that our employees are familiar with and have internalised our "shared DNA". Our goal is to create an atmosphere in which we encourage and expect all employees across all hierarchies to adhere to our values.

A practised, 360° feedback culture is an important instrument in developing a productive corporate culture. To promote their development, every employee has a right to know where he stands. That's why we regularly conduct structured appraisal interviews on all levels. In 2017, we also asked our employees to appraise their superiors. The results help our managers to improve their own performance.

We offer our employees the opportunity to share in the ownership of FRoSTA AG and in this way allow them to participate in the company's success. In 2017, they again had the option to purchase employee shares at preferential conditions. A total of 432 buyers (2016: 405) took part in the campaign in 2017 and acquired shares with a value of kEUR 1,141.8 (2016: kEUR 855.7).

We are delighted at our employees' involvement in this scheme and the trust demonstrated and hope that even more employees will become FRoSTA shareholders in future.

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

PROCUREMENT

Global procurement markets were highly volatile in the 2017 financial year. In the first half-year in particular, first exchange rate fluctuations between the EUR and the USD, along with the strained situation in the milk-producing industry, led to a marked deterioration of purchasing prices. However, the situation improved significantly in the second half of the year.

PRODUCTION AND QUALITY STANDARDS

Due to extremely strong demand in European markets, we were able to increase production volumes by more than 1% compared to 2016. As a result, capacity utilisation was extremely good at all production facilities in the reporting period. A fire at the Bremerhaven production facility in May 2017 led to an unplanned 4-week stoppage on the production lines for ready meals. However, by transferring production to other lines and plants it was possible to reduce the production losses. All damage caused was quickly assessed by the relevant insurance experts and immediately repaired.

In order to demonstrate our consistently high commitment to quality and production reliability, we are certified in accordance with the IFS 6 and BRC 7 standards and in this context underwent unannounced audits at all plants.

Additionally, we regularly subject our business processes to auditing in accordance with the ISO 9001 quality management system.

We strive to continuously optimise the use of energy across the FRoSTA Group by adhering to ISO 50001 (energy management). In the first half of 2017, we succeeded in lowering energy consumption per tonne of finished products by 1% (measured in CO_2 equivalents). However, due to the commissioning of new production lines, a series of tests and the usual start-up times without corresponding production of ready meals in the second half-year, our performance for the year as a whole deteriorated temporarily by 4%.

CAPITAL EXPENDITURE

Capital expenditures totalled EUR 39.1m for the 2017 financial year, EUR 14.8m of which flowed into capacity expansion projects at all locations.

R&D REPORT

Product development again contributed to the Company's sustainable success. In 2017, many new product concepts were developed. One highly successful example is the FRoSTA Crispy Batter fish from the oven (Backofen Fisch Knusprig Kross), which received the "2017 Golden Product of the Year" award from the trade journal Lebensmittel Praxis. We continued to work intensively on many innovative products.

ORGANISATION, ADMINISTRATION AND COMPANY STRUCTURE

The proven organisation structure has remained substantially unchanged. Chairman of FRoSTA AG's Executive Board is Felix Ahlers. As Vice Chairman, Jürgen Marggraf is responsible for the COPACK and Operations segments. Hinnerk Ehlers is in charge of Marketing and Sales for the brand, Foodservice and Home Delivery, as well as HR. The Board function Finance and Financial Controlling is headed up by Maik Busse.

The Supervisory Board of FRoSTA AG is chaired by Dirk Ahlers. Oswald Barckhahn is Vice Chairman of the Supervisory Board and Jürgen Schimmelpfennig is the elected workers' representative. The Supervisory Board appoints the members of the Executive Board and determines their number.

The structure and amounts of the remuneration paid to the members of the Executive Board are disclosed in the Notes.

RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

MACROECONOMIC ENVIRONMENT

In 2017, the German economy grew by 2.2% and the economies of the EU countries by 2.5%. At 1.4%, inflation in the euro zone continues to be at a comparably low level, with energy prices especially rising faster than average at 3.0% (source: Eurostat 01/2018).

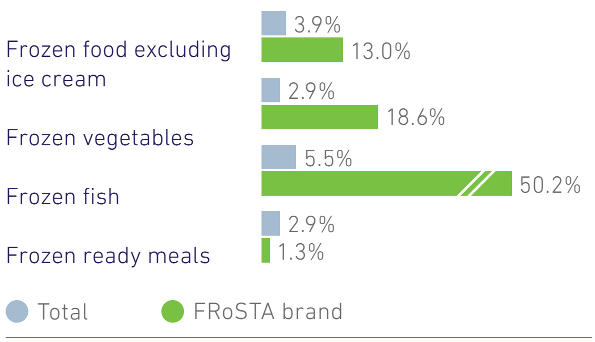
The German food retail segment posted growth of 3.6% in the 2017 financial year, which was accounted for largely by the price development (3.3%). Higher prices for milk and butter are partly responsible for this, along with demand on the part of full-range food retailers for higher-quality products and in particular on the part of discounters thanks to listings of branded products (source: GFK Consumer Index 12/2017).

The first half of 2017 was marked especially by the euro's sharp decline against the US dollar. This trend reversed in the course of the year, but was unable to wholly compensate for the negative effect on purchasing prices.

DEVELOPMENT OF THE FROZEN FOOD MARKET

In 2017, frozen food sales in the German food retail segment, including hard discounters (Aldi/Lidl/Norma) increased by 3.9% to EUR 6.5 billion.

Performance (2017 vs. 2016)



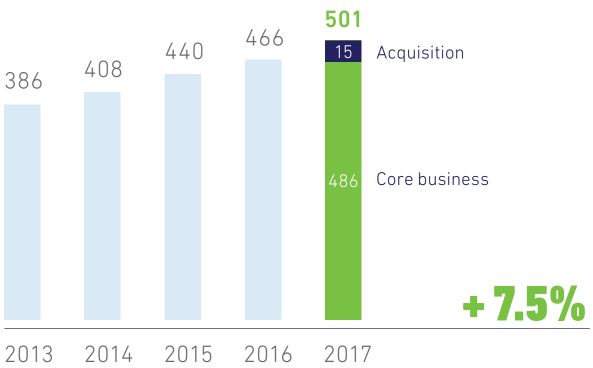
The FRoSTA brand again posted double-digit growth of 13.0% and thus outperformed the market (source: IRi 2017).

The awarding of the Anniversary Prize by the German Sustainability Award Foundation in December 2017 will certainly help to further strengthen the trust consumers have placed in us.

BUSINESS DEVELOPMENT

In 2017, we managed to increase FRoSTA Group revenue by 7.5% to EUR 501m. The main driver of this growth was the sustained positive development of the FRoSTA brand.

Group Revenue (in mEUR)

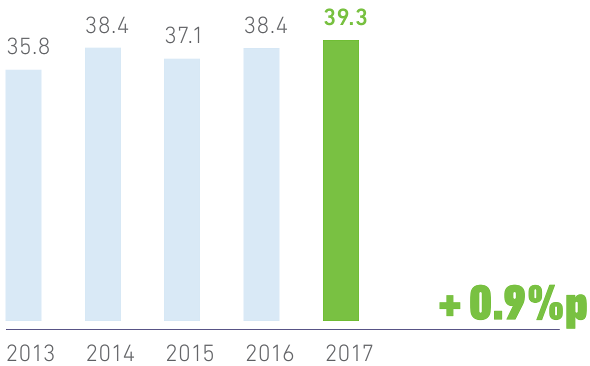


Acquisition of the La Valle degli Orti and Mare fresco brands in Italy from 1 June 2017 made a significant contribution to this result with EUR 15m. Revenue generated by our core business with the FRoSTA brand also grew by 10.4% – despite the temporary delisting of our 500g stir-fry meals by a major customer. The Foodservice business again posted double-digit growth year-on-year. Revenue performance in the Home Delivery and private label segments was slightly down on the previous year.

The development projected in the previous year's forecast was thus exceeded both in the consolidated and in the separate financial statements.

The disproportionately high sales increases for the FRoSTA brand and in the Foodservice segment with innovative products contributed to an improvement of the gross profit margin from 38.4% to 39.3%. The gross profit margin is calculated on the basis of Group earnings by subtracting other operating income and the cost of materials (cost of goods sold) from total revenue and dividing by total revenue.

Gross Profit Margin (in % of overall performance)



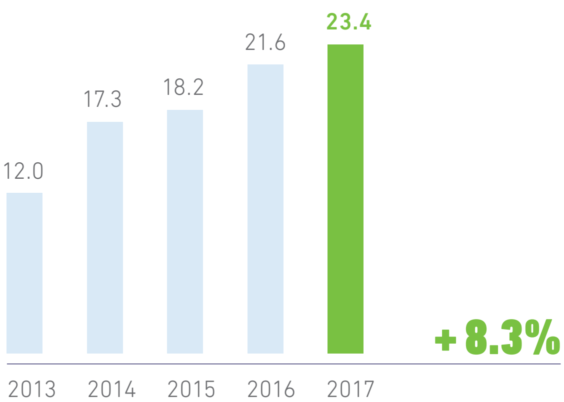
To create additional production capacities, extra shifts were introduced in the plants with corresponding subsequent costs.

Expenditure on brand-building activities increased by EUR 1.5m in the reporting period.

Net interest income/expense showed no significant change year-on-year. The tax rate for FRoSTA AG increased slightly from 31% to 32% as a result of one-time effects from the auditing of the accounts for the years 2010–2014.

The consolidated profit for the year totalled EUR 23.4m in the 2017 reporting period, up by EUR 1.8m on 2016.

Consolidated Profit/Loss (in mEUR)

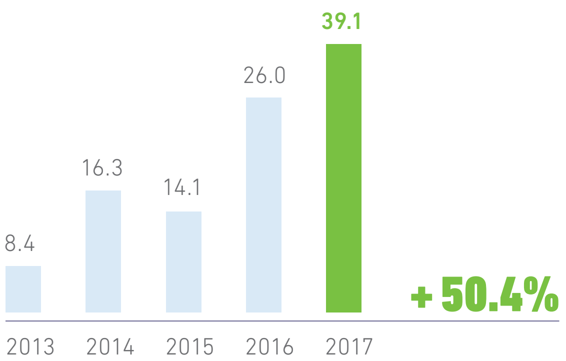


With this result, the Company managed to exceed the forecast made at the beginning of the year for the financial year 2017.

Capital expenditure totalled EUR 31.6m in the 2017 financial year and was used largely for the expansion of production capacities. To finance extended assets, non-current loans were increased by EUR 11m.

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

Capital expenditure (in mEUR)



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

Equity (in mEUR)

	31.12.2016	31.12.2017	Exclusive acquisition
Subscribed capital	17.4	17.4	17.4
+ Capital reserves	12.8	12.8	12.8
+ Retained earnings / other reserves	93.9	108.3	108.4
+ Profit for the year	21.6	23.4	23.1
Equity	**145.7**	**161.9**	**161.7**
Total assets	**271.6**	**310.0**	**288.2**
Equity ratio	**53.7%**	**52.2%**	**56.1%**

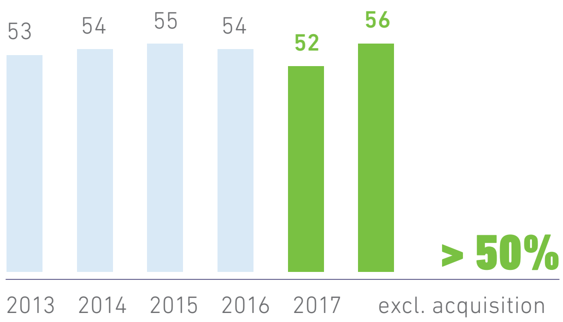
The balance sheet total of EUR 310m in 2017 significantly exceeded the previous year's level of EUR 272m. One major impact (EUR 22m) here resulted from the acquisition of the brand business in Italy. The increase in property, plant and equipment (EUR 18m) also had an impact due to the investments in capacity expansion. At 2.5%, capital tied up in core business excluding non-current assets and after deduction of trade payables decreased in line with revenue performance. First effects of the programme to improve internal financing initiated in 2017 are thus being felt.

The rise in the balance sheet total was funded by the increase in equity of EUR 16m. Liabilities to banks were increased by EUR 11m through long-term asset financing, and receivables financing within the scope of the ABS programme was increased in the short term by EUR 6m. In addition, the extension of the payment periods of our suppliers also had a positive effect.

The equity ratio of FRoSTA AG thus remained at a high level of 52% and for the core business excluding acquisition even increased to 56%.

Thus – even with high capital expenditure in the future – FRoSTA retains its financial independence.

Equity ratio (in %)



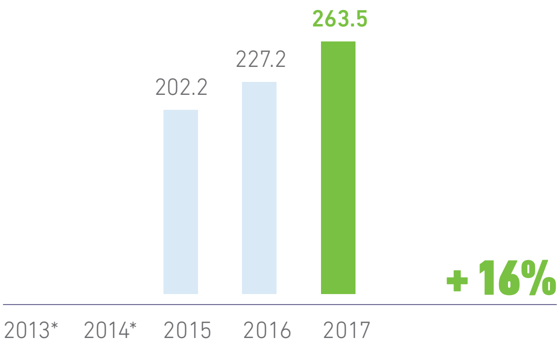
Overall, the financial position of the FRoSTA Group developed positively in 2017. The revenue, gross profit margin and total profit/loss projections made in the 2016 management report were surpassed, leading to the higher-than-projected operating profit.

SEGMENT REPORTING

PERFORMANCE OF THE FRoSTA OPERATING SEGMENT

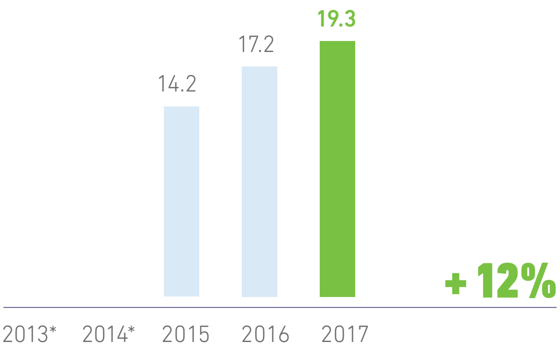
The FRoSTA operating segment (brand business, some parts of the private label business as well as the Foodservice and Home Delivery service in Europe) enjoyed a positive development in almost all sales areas. Overall, the segment grew by 16%. An important driver of this growth was the acquisition in Italy, which contributed EUR 15.2m in the months from June to December. New, high-impact TV campaigns, coupled with the excellent work of our sales and marketing teams, also generated revenue growth in our core business of 9.3%. This is a very good result, especially given that tough negotiations over terms led to the temporary delisting of our 500g stir-fry meals by a major customer.

Revenue FRoSTA operating segment (in mEUR)



*new allocation from 2015

Net profit/loss FRoSTA operating segment (in mEUR)



*new allocation from 2015

In the core German market, the FRoSTA brand increased consumer revenue in 2017 by as much as 13% (source: IRi 2017).

FRoSTA extended its market leadership (24.1% market share) in the stir-fry segment with growth of 1.3% (source: IRi 2017).

Following the excellent prior-period figures, sales revenues for FRoSTA vegetable mixes again achieved double-digit growth of 18.6%. Our international stir-fry vegetables made a significant contribution to this very positive result (source: IRi 2017).

In the fish segment, our Backofen Fisch Knusprig Kross, Pfannen Fisch Müllerin Art and our Schlemmerfilets recorded further marked increases. Thanks to the strong combination of TV and promotion campaigns, this segment once again posted exceptional growth of 50.2% (source: IRi 2017).

Brand-building activities in other European countries excluding Germany also brought dividends, resulting in double-digit growth for the FRoSTA brand.

Due to the high quality of the range, the Foodservice (catering) segment also saw a rise in revenue of 17.4%.

Steady growth combined with a positive product mix led to improved profitability in the FRoSTA operating segment.

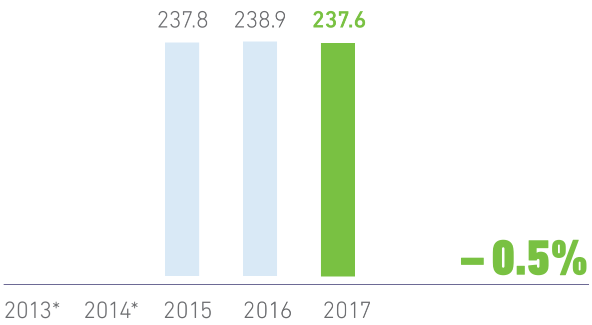
PERFORMANCE OF THE COPACK OPERATING SEGMENT

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

Due to the loss of a customer contract in France, this segment showed a slightly negative development. In the other markets, revenue levels were maintained.

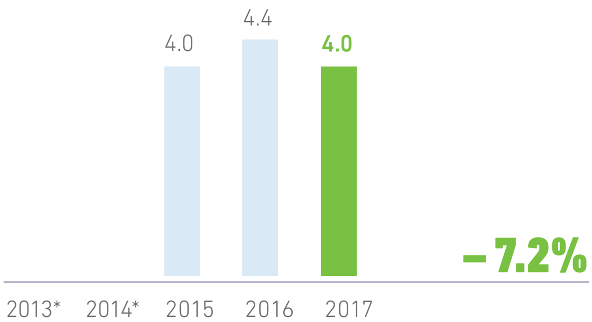
The expected rise in raw material prices and the ongoing expansion of capacities will make it necessary to increase prices in the future.

Revenue COPACK operating segment (in mEUR)



*new allocation from 2015

Net profit/loss COPACK operating segment (in mEUR)



*new allocation from 2015

SEPARATE FINANCIAL STATEMENTS OF FRoSTA AG

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

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

Sales of FRoSTA AG in 2017 were up by 3.6% on the previous year. This was mainly due to the good sales performance of the FRoSTA brand and the international Foodservice business. Earnings further improved by virtue of the segment mix.

The separate financial statements show a profit after tax of EUR 19.0m in accordance with the accounting principles of the German Commercial Code (HGB). The previous year's figure was EUR 15.5m.

Capital expenditure in the 2017 financial year totalled EUR 22.9m. Much of this was spent on expanding and modernising production facilities.

The Company was at all times able to meet its payment obligations.

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

Reconciliation of 2017 financial statements

	kEUR
Net income for the year of FRoSTA AG (HGB)	**18,953**
Adjustments to IFRSs:	
Depreciation and amortisation	–1,946
Pallets	1,236
Deferred taxes	–73
Foreign currencies	–24
Other	–132
Profit for the year of FRoSTA AG (IFRSs)	**18,014**
Total annual profit/loss of subsidiaries included in the consolidated financial statements	5,546
Effects of the consolidating entries recorded to profit or loss	–208
Profit for the year of FRoSTA Group for 2017	**23,352**

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

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

The Executive Board will propose to the Annual General Meeting to distribute a dividend of EUR 1.60 per share from net retained profits and allocate the remainder to reserves. Based on 6,812,598 shares, less 228 treasury shares not entitled to a dividend in accordance with Section 71b of the German Stock Corporation Act (AktG), this results in a total dividend amount of EUR 10.9m.

As a result, 32% of the FRoSTA Group's profit before tax of EUR 34.4m will be distributed as a dividend and 32% paid as taxes, with 36% being retained by the Company.

Appropriation of profits 2017

	mEUR	Percentage
Current company taxes	11.1	
Capital gains tax including solidarity surcharge on dividends	2.9	
Total taxes	**14.0**	**40.7%**
Net dividend	**8.0**	**23.3%**
Retained by the Company	**12.4**	**36.0%**
Consolidated profit before tax	**34.4**	**100.0%**

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

Overall, the financial position of the FRoSTA Group developed positively in 2017. The revenue, gross profit margin and total profit/loss projections made in the 2016 management report were surpassed, leading to the higher-than-projected operating profit.

THE FRoSTA SHARE

Key data of the FRoSTA share

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

The FRoSTA share saw the following development in 2017: in December 2016, the share price was at EUR 58.80 and in December 2017 it was at EUR 79.00. Since March 2017, the FRoSTA share has been traded in the Open Market segment of the Frankfurt Stock Exchange.

Key figures for the FRoSTA share

	2016	2017
Share capital (mEUR)	17.4	17.4
Number of shares (in thousand)	6.813	6.813
Equity carried in the consolidated balance sheet (mEUR)	145.7	161.9
Equity per share (EUR)	**21.39**	**23.77**
Share price at year-end (EUR)	58.80	79.00
Year high (EUR)	65.25	90.50
Year low (EUR)	39.40	54.86
Trading volume in shares	516.782	583.670
P/E ratio (price at year-end/profit for the year)	**18.55**	**23.03**
Dividend payout per share (EUR)	1.50	1.60
Dividend yield (dividend/price at year-end)	**2.6%**	**2.0%**
Consolidated profit for the year (mEUR)	21.6	23.4
Net profit for the year per share (EUR)	**3.17**	**3.43**

RISK MANAGEMENT SYSTEM / INTERNAL CONTROL SYSTEM

The risks described affect all segments of the Group.

The main features of the internal control and risk management process relevant for the Group's financial reporting system are presented as follows: FRoSTA has set up an internal control and monitoring system to be enforced by the Group's Financial Controlling, Accounting, Debtor Management and Human Resources departments. Process-integrated and independent monitoring procedures make up the main components of the control system. Besides manual measures such as the dual-control principle, automatic controls integrated into our SAP-ERP system with its BO analysis tool are also a material component of measures integrated into processes. The strict separation of administrative, executive, accounting and approval functions reduces the likelihood of fraudulent actions.

The most important internal control variables at FRoSTA AG in order to secure economic independence are revenue growth, net profit for the year and the equity ratio. The return on investment measures the ratio of the operating result (EBIT) to the average capital employed (fixed assets + inventories + receivables from customers - trade liabilities).

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

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

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

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

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

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

REPORT ON RISKS AND OPPORTUNITIES

PROCUREMENT MARKET

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

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

CURRENCY SITUATION

FRoSTA purchases most of its raw materials from international markets. Most of these goods are invoiced in US dollars. We make use of the usual options and futures trading instruments available on the market to hedge exchange rate fluctuations. The aim is to hedge the US dollar requirement from operational planning for the respective following four months.

The way these currency hedging instruments are dealt with is precisely stipulated by a set of procedural regulations, and financial controlling instruments are employed to ensure that these are adhered to. In general, a deterioration of the EUR/USD exchange rate results in higher prices for goods purchased – and vice versa. The hedging of exchange rate risks can only compensate to a limited extent for a continually rising US dollar. Opportunities may derive from falling US dollar exchange rates.

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

SALES MARKET

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

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

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

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

FINANCING

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

LEGAL RISKS

There are no legal risks.

In its overall assessment, the Executive Board currently does not see any risks that would jeopardise the continued existence of FRoSTA AG and the Group.

REPORT ON POST-BALANCE-SHEET DATE EVENTS

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

BRANCH OFFICE REPORT

FRoSTA AG has the following branch offices:

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

FORECAST

We expect the frozen food market in Europe to continue to enjoy moderate growth. We also expect the catering business (Foodservice) to grow. On the other hand, we are also likely to see a rise in the prices for our raw products, especially fish.

Price increases and cost discipline will therefore be necessary to enable us to invest in advertising, necessary working capital and innovative state-of-the art technology. The full effect of the acquisition of the new Italian brands will be reflected in 2018. We are therefore targeting an overall increase in Group revenue and consolidated net profit in line with the trend of the past few years, so as to continue to guarantee our independence through a stable equity ratio in 2018.

In the first two months of 2018, we saw an increase in revenue of 4.3% compared to the previous year.

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

Bremerhaven, March 2018

The Executive Board

ANNUAL FINANCIAL STATEMENTS OF THE FRoSTA GROUP

We also keep a beady eye on what our suppliers are doing – for our fish fingers and all other FRoSTA meals, we exclusively use MSC-certified fish and seafood.

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

Consolidated balance sheet of FRoSTA AG as at 31 December 2017 (in kEUR)

		Note	2016	2017	Change
A.	**Non-current assets**				
I.	Intangible assets	6, 8, 23	1,298	8,768	575.5%
II.	Property, plant and equipment	7, 8, 24	86,350	104,508	21.0%
III.	Financial assets	9, 25	125	125	0.0%
IV.	Investments accounted for using the equity method	9, 25	0	0	
V.	Deferred tax assets	16, 46	1,948	1,863	–4.4%
			89,721	**115,264**	28.5%
B.	**Current assets**				
I.	Inventories	10, 26	77,612	81,553	5.1%
II.	Receivables and other assets	11			
	1. Trade receivables		82,584	91,094	10.3%
	2. Receivables from affiliated companies	27	0	1	
	3. Other assets				
	Financial assets		6,335	6,989	10.3%
	Miscellaneous other assets	28	245	567	131.4%
	4. Tax receivables	28	165	0	–100.0%
III.	Cash and cash equivalents	48	14,903	14,578	–2.2%
			181,844	**194,782**	7.1%
Balance sheet total			**271,565**	**310,046**	**14.2%**

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

Consolidated balance sheet of FRoSTA AG as at 31 December 2017 (in kEUR)

		Note	2016	2017	Change
A.	**Equity**	**29**			
I.	Subscribed capital	30			
	Nominal amount		17,440	17,440	0.0%
	Treasury shares		–27	0	100.0%
			17,413	**17 440**	0.2%
II.	Capital reserves	31	12,815	12,815	0.0%
III.	Retained earnings	32	83,676	89,520	7.0%
IV.	Other reserves	33	–1,896	503	126.5%
V.	Equity earned by the Group (without retained earnings)	32	33,724	41,625	23.4%
			145,732	**161,903**	11.1%
B.	**Non-current liabilities**				
I.	Provisions for pensions and similar obligations	35	960	1,006	4.8%
II.	Other non-current provisions	36	2,377	2,486	4.6%
III.	Liabilities to banks	37	17,715	26,027	46.9%
IV.	Deferred tax liabilities	46	2,649	2,233	–15.7%
			23,701	**31,752**	34.0%
C.	**Current liabilities**				
I.	Current provisions	36	1,688	1,091	–35.4%
II.	Liabilities to banks	37	9,904	18,538	87.2%
III.	Trade payables	37	62,148	68,289	9.9%
IV.	Other current liabilities	37, 38			
	Financial liabilities	38	8,610	8,665	0.6%
	Other liabilities	38	17,077	15,227	–10.8%
V.	Tax liabilities		2,705	4,581	69.4%
			102,132	**116,391**	14.0%
Balance sheet total			**271,565**	**310,046**	**14.2%**

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

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017

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

		Note	2016	2017	Effect on profit/loss
1.	Revenue	39	466,059	501,131	7.5%
2.	Increase in inventories of finished goods and work in progress		1,871	3,002	60.4%
3.	Other own work capitalised		79	105	32.9%
4.	Other operating income	40	9,834	10,087	2.6%
5.	**Total operating revenue**		**477,843**	**514,325**	7.6%
6.	Cost of materials				
	a) Cost of raw materials, consumables and supplies		–280,100	–297,747	–6.3%
	b) Cost of purchased services		–9,106	–9,529	–4.6%
			–289,206	**–307,276**	
7.	Personnel expenses	41			
	a) Wages and salaries		–58,201	–62,071	–6.6%
	b) Social security, post-employment and other employee benefit costs – of which post-employment benefits: kEUR 23 (2016: kEUR 9)		–10,124	–10,893	–7.6%
			–68,325	**–72,964**	
8.	Amortisation and depreciation of intangible assets and property, plant and equipment	42	–12,236	–14,400	–17.7%
9.	Other operating expenses	43	–76,467	–84,791	–10.9%
10.	**Operating profit (EBIT)**		**31,609**	**34,894**	10.4%
11.	Income from equity investments		82	128	56.1%
12.	Other interest and similar income	44	195	68	–65.1%
13.	Interest and similar expenses		–748	–679	9.2%
	– of which financial expenses: kEUR 669 (2016: kEUR 728)	44			
14.	**Net financial result**		**–471**	**–483**	–2.5%
15.	**Profit/loss from ordinary operating activities**		**31,138**	**34,411**	10.5%
16.	Current taxes on income	45	–10,243	–11,346	–10.8%
17.	Deferred taxes	46	673	287	–57.4%
18.	**Consolidated profit/loss for the year**		**21,568**	**23,352**	**8.3%**

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

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017

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

	Note	2016	2017	Effect on profit/loss
1, Consolidated profit/loss for the year	47	21,568	23,352	8.3%
2, Other comprehensive income				
a) Items that will not be reclassified to profit or loss				
Actuarial gains or losses – Income taxes relating to these gains and losses kEUR -4 (2016: kEUR -13)		–41	–12	70.7%
b) Items that have been or may subsequently be reclassified to profit or loss				
Gains and losses on the translation of annual financial statements of foreign subsidiaries		–897	2,411	> 100.0%
3, Comprehensive income		**20,630**	**25,751**	24.8%
Allocation of comprehensive income to shareholders of the parent		20,630	25,751	24.8%
Non-controlling interests		0	0	
		20,630	**25,751**	**24.8%**

CONSOLIDATED STATEMENT OF CASH FLOWS OF FRoSTA AG

Consolidated statement of cash flows (in kEUR)

	2016	2017
Consolidated profit before tax	31,138	34,411
Depreciation and amortisation of non-current assets	12,236	14,400
Interest income	–195	–68
Interest expense	748	679
Increase in non-current provisions	143	155
Gains/losses on disposal of fixed assets	–16	–48
Other non-cash income and expenses	1,630	1,536
Interest paid	–690	–536
Interest received	26	9
Income taxes paid	–9,807	–9,546
Income taxes received	43	–
Cash flow before change in working capital	**35,256**	**40,992**
Decrease/increase in current provisions	1,688	–596
Increase in inventories, trade receivables and other assets not attributable to investing or financing activities	–13,297	–13,368
Increase in trade payables and other liabilities not attributable to investing or financing activities	17,597	4,148
Cash flow from operating activities	**41,244**	**31,176**
Proceeds from disposal of non-current assets	87	24
Proceeds from grants	850	–
Capital expenditure on property, plant and equipment	–25,471	–31,020
Capital expenditure on intangible assets	–500	–8,053
Capital expenditure on non-current financial assets	–5	–
Cash flow from investing activities	**–25,039**	**–39,049**
Payments to acquire treasury shares	–2,690	–2,849
Proceeds from disposal of treasury shares	2,326	3,457
Dividends to shareholders	–9,234	–10,188
Proceeds from obtaining bank loans	10,000	16,300
Payments to repay bank loans	–6,525	–5,354
Decrease/increase in other financial liabilities	–9,471	6,000
Cash flow from financing activities	**–15,594**	**7,366**
Net change in cash and cash equivalents	–147	182
Effect of translation differences on cash and cash equivalents	611	–507
Cash and cash equivalents at beginning of period	14,439	14,903
Cash and cash equivalents at end of period	**14,903**	**14,578**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF FRoSTA AG

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

				Other retained earnings			
	Subscribed capital	Capital reserves	Retained earnings	Actuarial gains/ losses	Adjustment item from foreign currency translation	Group equity (without retained earnings)	Equity earned by the Group
As at 1 January 2016	**17,424**	**12,815**	**79,914**	**–52**	**–906**	**25,505**	**134,700**
Dividends paid						–9,234	–9,234
Acquisition of treasury shares	–131		–2,559				–2,690
Employee share programme	120		2,206				2,326
Appropriation to retained earnings			4,115			–4,115	0
Other comprehensive income				–41	–897	21,568	20,630
As at 31 December 2016	**17,413**	**12,815**	**83,676**	**–93**	**–1,803**	**33,724**	**145,732**
As at 1 January 2017	**17,413**	**12,815**	**83,676**	**–93**	**–1,803**	**33,724**	**145,732**
Dividends paid						–10,188	–10,188
Acquisition of treasury shares	–105		–2,744				–2,849
Employee share programme	131		3,326				3,457
Appropriation to retained earnings			5,263			–5,263	0
Other comprehensive income				–12	2,411	23,352	25,751
As at 31 December 2017	**17,440**	**12,815**	**89,520**	**–105**	**608**	**41,625**	**161,903**

CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS OF FRoSTA AG 2016/2017

Consolidated statement of changes in fixed assets of FRoSTA AG 2017 (in kEUR)

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

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

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

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

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

FINANCIAL STATEMENTS FOR THE 2017 FINANCIAL YEAR

FRoSTA AKTIENGESELLSCHAFT, BREMERHAVEN

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

FRoSTA Aktiengesellschaft (in the following FRoSTA AG) is a public limited company under German law and is listed in the Open Market of the Frankfurt Stock Exchange. FRoSTA AG as parent company and its subsidiaries develop, produce and market frozen food products in Germany and Europe. The products are sold under their FRoSTA, Elbtal and TIKO own brand labels and as private labels. The Group's registered seat is in 27572 Bremerhaven, Germany, Am Lunedeich 116. FRoSTA AG's Executive Board released the consolidated financial statements on 9 March 2018 for presentation to the Supervisory Board. It is the task of the Supervisory Board to examine the consolidated financial statements and to state whether it approves them.

(1) ACCOUNTING POLICIES AND PRINCIPLES

FRoSTA AG's consolidated financial statements as at 31 December 2017 have been prepared in compliance with the International Accounting Standards Board's (IASB) financial reporting standards – the International Accounting Standards (IASs) and the International Financial Reporting Standards (IFRSs) – as applicable and binding within the European Union.

In doing so, all IASs or IFRSs to be applied as at 31 December 2017 and the appropriate interpretations provided by the Standing Interpretations Committee (SIC) or the International Financial Reporting Interpretations Committee (IFRIC) were complied with. The requirements of the above-mentioned regulations were fulfilled, so that FRoSTA AG's consolidated financial statements convey an appropriate picture of the net assets, financial position and results of operations as well as the cash flows within the 2017 financial year.

The conditions laid down in Section 315a of the German Commercial Code (HGB) on the exemption from preparing consolidated financial statements according to German accounting standards have been fulfilled. In order to ensure equivalence with consolidated financial statements prepared in accordance with German commercial law (HGB), all statutory obligations pertaining to disclosure and explanatory notes above and beyond the IASB regulations, in particular preparing a management report, have been fulfilled.

The consolidated financial statements have been prepared under the assumption that the company will continue as a going concern. Comparative figures from 2016 are stated for all line items of the financial statements.

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

Comparisons are made based on the reference date of 31 December 2016.

The consolidated financial statements are prepared in euros. Unless stated otherwise, all amounts are shown in thousands of euros (kEUR).

CONSOLIDATION (2)

CONSOLIDATION PRINCIPLES

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

The subsidiaries are accounted for using acquisition accounting in accordance with IFRS 3. Under the acquisition method, the carrying amounts of the equity investments are eliminated against the proportionate equity of the subsidiaries attributable to the parent on the basis of the carrying amounts at the time of acquisition of the shares (acquisition method). In doing so, equity must be determined according to the revaluation method. As a matter of principle, IFRS 3 must be adopted retrospectively for all business combinations that occurred before the date of initial application (31 December 2005).

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

- IFRS 3 will not be applied retrospectively for business combinations that occurred before the transition date (1 January 2004).
- This means that the method of consolidation previously applied may be retained.

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

(3) GROUP REPORTING ENTITY

Fully consolidated subsidiaries

Name of entity	Registered seat of entity	Percentage of capital held in 2016 in %	Percentage of capital held in 2017 in %
COPACK Tiefkühlkost-Produktions GmbH	Bremerhaven	100.00	100.00
COPACK France S.a.r.l.	Boulogne-Billancourt/France	100.00	100.00
FRoSTA Tiefkühlkost GmbH	Bremerhaven	100.00	100.00
FRoSTA Foodservice GmbH	Bremerhaven	100.00	100.00
FRoSTA Italia S.r.l.	Rome/Italy	100.00	100.00
FRoSTA CR s.r.o.	Prague/Czech Republic	100.00	100.00
FRoSTA Sp. z o.o.	Bydgoszcz/Poland	100.00	100.00
Tiko Vertriebsgesellschaft mbH	Bremerhaven	100.00	100.00
FRoSTA S.r.l.	Rome/Italy	100.00	100.00
COPACK S.r.l.	Rome/Italy	100.00	100.00

Elbtal Tiefkühlkost Vertriebs GmbH, Feldgemüse GmbH, Lommatzsch and Bio-Freeze GmbH were merged with FRoSTA AG during the ongoing financial year. FRoSTA S.r.l. and COPACK S.r.l. were established in Italy in the financial year 2017 and were included in the consolidated financial statements for the first time. The consolidated financial statements for the financial year do not include the following entities whose impact on the Group's net assets, financial position and results of operations is not material:

Companies not included in the consolidated financial statements

Name of entity	Registered seat of entity	Percentage of capital held in 2016 in %	Percentage of capital held in 2017 in %
FRoSTA Romania S.R.L.	Bucharest/Romania	100.00	100.00
NORDSTERN America Inc.	Seattle/USA	100.00	100.00
OOO FRoSTA	Moscow/Russia	100.00	100.00
FRoSTA Hungary Kft.	Esztergom/Hungary	100.00	100.00
Copack Sp. z o.o.	Bydgoszcz/Poland	100.00	100.00
Columbus Spedition GmbH	Bremerhaven	33.33	33.33

(4) TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

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

The following exchange rates were taken into accountwhen preparing the consolidated financial statementsand the consolidated comprehensive income statement (equivalent value for EUR 1):

Development of the exchange rates of the most important currencies

	Average rate		Closing rate	
	2016	**2017**	**2016**	**2017**
Polish zloty	4.3745	4.2789	4.4140	4.1752
Czech koruna	27.020	26.326	27.020	25.585

ACCOUNTING POLICIES AND MEASUREMENT METHODS

(5) RECOGNITION OF INCOME AND EXPENSES

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

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

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

Dividends are recognised at the time they are paid out.

INTANGIBLE ASSETS (6)

Externally acquired intangible assets are carried at cost.

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

Amortisation period of intangible assets

	Useful life in years
Software	4
Licences	4

PROPERTY, PLANT AND EQUIPMENT (7)

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

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

Assets that are rented or leased (finance lease), where substantially all risks and benefits associated with an asset are transferred to the Group, are carried net of accumulated depreciation and an appropriate liability at the lower of the fair value of the asset or the present value of the rent or lease payments.

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

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

Depreciation is carried out uniformly throughout the Group over the following useful lives:

Depreciation period of property, plant and equipment

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

(8)

IMPAIRMENT LOSSES ON INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND FINANCIAL ASSETS

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

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

(9)

FINANCIAL ASSETS AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

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

(1) Purchase cost of the investee
(2) +/– investor's share of the undistributed profit/ loss of the investee
(3) – distributions received from the investee
(4) = mortised investment carrying amount (equity value)

(10)

INVENTORIES

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

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

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

(11) RECEIVABLES AND OTHER ASSETS

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

(12) CASH AND CASH EQUIVALENTS

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

(13) PROVISIONS FOR PENSIONS

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

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

(14) OTHER PROVISIONS

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

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

Existing plan assets are to be set off against provisions for partial retirement, with the plan assets to be measured at fair value.

Non-current provisions are measured with their settlement amount on the basis of applicable market rates, discounted to the balance sheet date.

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

LIABILITIES (15)

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

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

DEFERRED TAXES (16)

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

(17) DERIVATIVE FINANCIAL INSTRUMENTS

CURRENCY FORWARDS, OPTIONS CONTRACTS AND INTEREST RATE SWAPS

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

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

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

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

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

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

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

(18)

Scope and fair values of the derivatives (in kEUR)

		31/12/2016		31/12/2017	
Financial instrument	**Type**	**Nominal amount**	**Fair value**	**Nominal amount**	**Fair value**
Currency forwards	Purchase kUSD	37,349	1,663	35,635	–844
Currency forwards	Sale kGBP	94	0	0	0
Currency swaps	Purchase (2016: sale) kUSD	1,021	9	647	–5
Currency swaps	Sale kGBP	0	0	0	0
Interest rate swaps	Loan kEUR	1,321	–30	314	–2

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

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

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

Due dates for the interest hedging instruments (in kEUR)

	31/12/2016	31/12/2017
Within one year	1,007	314
Between one and five years	314	0
Over five years	0	0
Total	**1,321**	**314**

(19)

EMPLOYEE SHARE PROGRAMME

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

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

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

FAIR VALUES OF FINANCIAL INSTRUMENTS (20)

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

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

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

Balance sheet item (in kEUR)

	Carrying amount	Fair value
Receivables and other assets	98,651	98,651
Cash	14,578	14,578
Non-current liabilities	31,751	32,032
Current liabilities	116,391	116,391

(21)

USE OF ESTIMATES

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

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

APPLICATION OF ADDITIONAL IASS AND IFRSS

(22)

NEW STANDARDS AND INTERPRETATIONS NOT PREVIOUSLY APPLIED

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

IFRS 9 (FINANCIAL INSTRUMENTS)

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

IFRS 9 becomes effective initially in the first reporting period of a financial year commencing on or after 1 January 2018; earlier adoption is also permissible. FRoSTA is currently assessing the impacts on the financial statements of the new expected loss impairment model and the modified requirements for hedge accounting. The new requirements for classification and measurement are likely to result in recognition of financial assets principally in the category "at amortised cost". The impairment model is based on the premise of providing for expected losses and as a general rule requires credit-impaired financial assets to be expensed earlier than has previously been the case. Studies conducted so far do not give a definitive assessment of the precise impact.

IFRS 15 (REVENUE FROM CONTRACTS WITH CUSTOMERS)

IFRS 15 establishes a comprehensive framework for establishing whether, to what extent and at what point revenue should be recognised. It replaces existing revenue recognition guidelines including IAS 18 (Revenue), IAS 11 (Construction Contracts) and IFRIC 13 (Customer Loyalty Programmes).

IFRS 15 becomes effective initially in the first reporting period of a financial year commencing on or after 1 January 2018; earlier adoption is also permissible. In assessing the impact, FRoSTA is conducting analyses of contracts with customers to measure the qualitative and quantitative effects of first-time application. Based on the evidence to date, the initial adoption of IFRS 15 is not expected to have any impact on the Group's net assets, financial position and results of operations since the Group mainly makes point-in-time deliveries to its customers and the contracts do not include any separable individual performances. As the analyses are still ongoing, it is not yet possible to measure the quantitative effects of first-time application.

IFRS 16 (LEASES)

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

Application of the following new or amended standards and interpretations is mandatory for the first time for the financial year ending on 31 December 2017:

- Annual improvements to IFRSs (AIP) – 2014–2016 cycle (IAS 28, IFRS 1 – The amendments to IAS 28 and IFRS 1 are effective for the first time for annual periods beginning on or after 1 January 2018; IFRS 12 – IFRS 12 is effective for accounting periods beginning on or after 1 January 2017.)
- Amendments to IAS 12: Recognition of Deferred Taxes for Unrealised Losses
- Amendments to IAS 7: Disclosure Initiative

These amendments have no effect on the 2017 or earlier reporting periods.

The following IFRSs, IFRICs or amendments were published by the IASB before 31 December 2017, but have not yet been adopted by the EU and were not applied early by FRoSTA:

- IFRS 14: Regulatory Deferral Accounts
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and an Associate or Joint Venture
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 40: Transfers of Investment Property
- IFRS 17: Insurance Contracts
- IFRIC 23: Uncertainty over Income Tax Treatments
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRSs (AIP) – 2015-2017 cycle

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

NOTES TO THE CONSOLIDATED BALANCE SHEET

INTANGIBLE ASSETS (23)

The development of the individual items of intangible assets is shown in the consolidated statement of changes in non-current assets (page 38). The share of foreign subsidiaries in the net carrying amount as per 31 December 2017 amounted to kEUR 118 (2016: kEUR 78).

In the FRoSTA Group development costs have not been capitalised, as their future economic use cannot be reliably determined as long as the products have not been launched on the market. The expenses for product development for the financial year 2017 amounted to kEUR 1,532 (2016: kEUR 1,595).

PROPERTY, PLANT AND EQUIPMENT (24)

As regards the development of property, plant and equipment, please see the consolidated statement of changes in non-current assets. The share of property, plant and equipment located abroad, primarily in Poland, in the net carrying amount as at 31 December 2017 amounted to kEUR 31,111 (2016: kEUR 17,190). Investment grants and subsidies received in the financial year reduce procurement costs by kEUR 3,096 (2016: kEUR 3,559). Based on current earnings forecasts no impairment losses were recognised in the reporting year. In prior years, impairment losses were recognised. If the reasons for impairment no longer apply, the impairment loss is reversed, with such reversal not exceeding amortised cost. This reversal amounted to kEUR 491 as at 31 December 2017 (2016: kEUR 605). In the reporting year no borrowing costs were capitalised pursuant to IAS 23.

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

Changes in financial assets and equity-accounted investments are shown in the consolidated statement of changes in non-current assets. The non-consolidated equity investments in subsidiaries are measured at amortised cost at the reporting date.

(26)
INVENTORIES

Inventories (in kEUR)

	31/12/2016	31/12/2017
Raw materials and consumables	33,317	30,166
Unfinished goods	16,712	19,554
Finished products and goods	27,452	31,174
Prepaid expenses	131	659
Inventories	**77,612**	**81,553**

Where necessary, the lower net realisable value was recognised, taking into account selling and production costs still to be incurred. The carrying amount of inventories recognised at the lower net realisable value amounted to kEUR 257 in 2017. The impairments of inventories shown in expenses amount to kEUR 34 (2016: kEUR 39).

(27)
TRADE RECEIVABLES

Trade receivables (In kEUR)

	31/12/2016	31/12/2017
Trade receivables, gross	83,077	91,573
Impairment charges on trade receivables	–493	–479
Trade receivables	**82,584**	**91,094**

Impairment losses on trade receivables (in kEUR)

	2016	2017
Impairment losses on trade receivables as at 1 January	**736**	**493**
Exchange rate differences	–2	2
Additions	0	0
Utilisation	–229	–16
Reversals	–12	0
Impairment losses on trade receivables as at 31 December	**493**	**479**

The net expense for the full derecognition of receivables based on payment defaults amounts to kEUR 32 (2016: kEUR 29). Income from derecognised receivables amounts to kEUR 0 (2016: kEUR 13).

Risks included in the trade receivables (in kEUR)

	31/12/2016	31/12/2017
Receivables neither past due nor impaired	**79,809**	**88,218**
Receivables past due, but not impaired		
Less than 30 days	2,399	2,316
30 to 60 days	222	266
More than 60 days	154	294
Total receivables past due	**2,775**	**2,876**
Carrying amount (net)	**82,584**	**91,094**

Receivables sold in asset-backed securities transactions (ABS) amounted to kEUR 14,081. According to the structure of the contract, ownership of the receivables is retained by FRoSTA. Liabilities resulting from the advance financing of receivables collection are recognised under liabilities to banks.

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

(28)
OTHER ASSETS

Other assets (in kEUR)

	31/12/2016	31/12/2017
Creditors with debit balances	227	260
Employees	34	49
VAT and consumer tax	3,556	4,390
Other financial assets	2,518	2,290
Financial assets	**6,335**	**6,989**
Prepaid expenses	245	567
Miscellaneous other assets	**245**	**567**
Other assets	**6,580**	**7,556**

No counterparty credit risks have been identified for other assets.

EXCESS OF PLAN ASSETS OVER POST-EMPLOYMENT BENEFIT LIABILITY

An excess of plan assets over post-employment benefit liability amounting to kEUR 9 (2016: kEUR 24) is shown under other assets. These assets relate to reinsurance policies. The asset value of the reinsurance policies is netted against the settlement amount of partial retirement obligations.

Reinsurance policies (in kEUR)

	31/12/2016	31/12/2017
Fair value of invested assets	70	127
Costs of invested assets	69	126

For further details, please refer to item 36.

EQUITY (29)

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

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

The minimum capital requirements have been met.

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

SUBSCRIBED CAPITAL (30)

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

The number of shares in circulation has remained unchanged in the financial year 2017.

A total of 228 FRoSTA AG no-par value bearer shares held as treasury shares with a nominal value of kEUR 1 or 0.01% of the share capital were offset against equity. The purchase cost amount of kEUR 17 exceeding the nominal value is reported as a reduction of retained earnings. Under Section 71b of the German Stock Corporation Act (AktG), the no-par value bearer shares held as treasury shares are not entitled to any rights.

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

CAPITAL RESERVES (31)

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

RETAINED EARNINGS AND EQUITY GENERATED BY THE GROUP (WITHOUT RETAINED EARNINGS) (32)

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

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

In accordance with the German Stock Corporation Act (AktG), the dividend to be paid out to the shareholders is measured on the basis of the net retained profits shown in FRoSTA AG's annual financial statements. As at 31 December 2017, these came to kEUR 18,953 (2016: kEUR 15,451).

The Annual General Meeting on 23 June 2017 passed a resolution to pay out a dividend of EUR 1.50 per share (totalling a dividend sum of kEUR 10,187) from the net retained profits of FRoSTA AG as at 31 December 2016.

FRoSTA AG's Executive Board proposes a dividend of EUR 1.60 per share for 2017 subject to the approval of the Annual General Meeting.

(33)

OTHER RESERVES

Other reserves comprise the differences arising from currency translation at subsidiaries that report in a currency different from that of the parent company. The measurement difference is mainly the result of the equity investment in FRoSTA Sp. z o.o., Bydgoszcz/Poland, whose annual financial statements are prepared in Polish zloty. The adjustment from currency translation amounted to kEUR 609 on the reporting date (2016: kEUR -1,803). As at 31 December 2017, other reserves also include actuarial losses totalling kEUR 105 (2016: kEUR 93).

(34)

EMPLOYEE SHARE PROGRAMME

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

Employee share programme: share purchases made

	2016	2017
Proposal I		
Number of shares	23,275	24,825
Issue price (EUR)	27.00	34.00
Average stock exchange price (EUR)	50.29	68.48
Difference (EUR)	23.29	34.48
Value (kEUR)	**542**	**856**
Proposal II		
Number of shares	16,833	17,514
Issue price (EUR)	13.50	17.00
Average stock exchange price (EUR)	50.29	68.48
Difference (EUR)	36.79	51.48
Value (kEUR)	**619**	**902**
Total (kEUR)	**1,161**	**1,758**

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

SHARE-BASED PAYMENTS

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

Share-based payments

	2016	2017
Shares issued for the previous financial year	7,090	8,880

(35)

PENSION OBLIGATIONS

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

The Group pension schemes are all defined benefit plans.

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

Parameters used for calculation of pension provisions

	2016	2017
Assumed interest rate	1.72%	2.80%
Salary trend	2.00%	2.00%
Pension trend	1.60%	1.60%

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

Pension costs (in kEUR)

	2016	2017
Other pension costs	78	90
Personnel expenses	**78**	**90**
Interest expense	13	9
Pension costs	**91**	**99**

Net obligation recognised in the balance sheet (in kEUR)

	2016	2017
Provisions as at 1 January	**892**	**960**
Pension costs	91	99
Payments to pensioners	–64	–65
Actuarial losses (+) / gains (-)	41	12
Provisions as at 31 December	**960**	**1,006**

The number of beneficiaries receiving pension payments was 14.

The employer contributions to the pension scheme qualify as expenses relating to defined contribution plans and amounted to kEUR 4,083 in 2017 (2016: kEUR 3,765).

(36)

OTHER PROVISIONS

Other provisions (in kEUR)

	As at 01/01/2017	Utilisation	Reversal	Addition	As at 31/12/2017
Jubilee payments	2,372	304	0	236	2,304
Other non-current provisions	**2,372**	**304**	**0**	**236**	**2,304**
Severance payments	1,634	80	552	30	1,032
Impending losses	54	54	0	59	59
Other current provisions	**1,688**	**134**	**552**	**89**	**1,091**
Other provisions	**4,060**	**438**	**552**	**325**	**3,395**

Partial retirement - plan assets (in kEUR)

	As at 01/01/2017	Utilisation	Reversal	Addition	As at 31/12/2017
Partial retirement	51	23	4	276	300
Plan assets	70	11	0	68	127

Provisions for partial retirement obligations are covered by reinsurance policies against insolvency. Since these insurances are classified as plan assets, they are netted out against the provisions for partial retirement. As the plan assets are assigned on the basis of individual partial retirement obligations, the principle of item-by-item measurement resulted in a provision for partial retirement obligations of kEUR 182 (2016: kEUR 5) as well as an excess of assets of kEUR 9 (2016: kEUR 24).

For further details, please refer to item 28.

(37) LIABILITIES

Liabilities (in kEUR)

	Total amount	of which due within		
		up to 1 year	more than 1 year	more than 5 years
Liabilities to banks (previous year)	44,565 (27,619)	18,538 (9,904)	21,010 (13,195)	5,017 (4,520)
Trade payables (previous year)	68,289 (62,148)	68,289 (62,148)	0 (0)	0 (0)
Other liabilities (previous year)	23,892 (25,687)	23,892 (25,687)	0 (0)	0 (0)

The liabilities to banks are guaranteed by mortgages amounting to kEUR 12,561 (2016: kEUR 10,141) and similar rights amounting to kEUR 833 (2016: kEUR 1,055). The customary retentions of title apply to trade payables.

Liabilities to banks (in kEUR)

	Position	31/12/2016	31/12/2017
Non-current loans	1	**22,118**	**32,361**
– of which current due within 1 year	2	4,403	6,334
Current loans	3	250	953
Other financial liabilities	4	5,251	11,251
Current liabilities to banks	**5 = 2+3+4**	**9,904**	**18,538**
Liabilities to banks	**6 = 1+3+4**	**27,619**	**44,565**

Receivables sold in asset-backed securities (ABS) transactions amounted to kEUR 14,081 as at 31 December 2017. After deducting a discount of kEUR 2,830, an amount of kEUR 11,251 is included in other financial liabilities.

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

Loans payable

31/12/2016 kEUR	31/12/2017 kEUR	Interest rate in %	Due date
250	0	4.98	31/05/2017
750	250	3.29	29/03/2018
1,172	234	5.31	31/03/2018
469	156	3.20	31/03/2018
937	313	3.20	31/03/2018
1,411	898	3.40	30/09/2019
1,055	833	3.00	30/09/2021
3,500	3,281	1.05	30/09/2021
0	2,813	0.95	30/09/2021
2,112	1,728	2.65	30/06/2022
1,468	1,201	3.05	30/06/2022
0	7,125	0.82	30/06/2022
0	800	0.62	30/09/2022
2,744	2,321	2.05	30/06/2023
6,500	6,500	0.81	30/03/2026
0	4,861	0.85	30/09/2026
22,368	**33,314**		

(38) **Other current liabilities (in kEUR)**

	31/12/2016	31/12/2017
Collection commissions	8,425	7,453
Debtors with credit balances	134	350
Miscellaneous other financial liabilities	51	862
Financial liabilities	**8,610**	**8,665**
Liabilities to employees	6,604	6,747
Social security contributions	209	497
Taxes	568	676
Deferred income	9,696	7,307
Miscellaneous other liabilities	**17,077**	**15,227**
Other liabilities	**25,687**	**23,892**

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

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

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

REVENUE (39)

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

Revenue by region (in kEUR)

	2016	2017
Germany	266,574	280,171
Abroad	199,485	220,960
Revenue	**466,059**	**501,131**

Revenue by product groups (in kEUR)

	2016	2017
Fish	223,441	242,397
Fruit and vegetables	115,578	127,072
Ready meals and other products	127,040	131,662
Revenue	**466,059**	**501,131**

(40) OTHER OPERATING INCOME

Other operating income (in kEUR)

	2016	2017
Currency translation gains	6,806	3,767
Income from the derecognition of prepaid expenses and deferred income	763	2,316
Income from credit notes for prior periods and from the derecognition of liabilities	348	160
Other operating income	1,917	3,844
Other operating income	**9,834**	**10,087**

(41) PERSONNEL EXPENSES

Personnel expenses (in kEUR)

	2016	2017
Wages and salaries	57,039	60,314
Social security contributions	10,115	10,870
Post-employment benefit costs	9	23
Costs of share-based payments	1,162	1,758
Personnel expenses	**68,325**	**72,965**

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

Number of employees (annual average)

	2016	2017
Wage earners	1,057	1,045
Salaried staff	429	446
Temporary employees	149	184
Number of employees pursuant to Section 314 (1) No. 4 HGB	**1,635**	**1,675**
Apprentices	30	34
Number of employees	**1,665**	**1,709**

(42) DEPRECIATION AND AMORTISATION

Depreciation and amortisation (in kEUR)

	2016	2017
Amortisation of intangible assets	501	598
Depreciation of property, plant and equipment	11,735	13,802
Depreciation and amortisation	**12,236**	**14,400**

(43) OTHER OPERATING EXPENSES

Other operating expenses (in kEUR)

	2016	2017
Storage and transport costs	21,579	22,295
External personnel costs	11,426	15,202
Marketing costs	11,764	13,424
Rent and cold-storage expenses	7,215	8,362
Maintenance	5,055	6,660
Currency losses	5,529	5,758
Fees, contributions and insurance	2,859	3,176
Other operating expenses	11,040	9,914
Other operating expenses	**76,467**	**84,791**

Other operating expenses includes severance payments amounting to kEUR 52 (2016: kEUR 96) as well as topping-up payments for the early retirement scheme amounting to kEUR 277 (2016: kEUR 34).

(44) INTEREST INCOME/EXPENSE

Interest income/expense (in kEUR)

	2016	2017
Interest income on bank balances	25	9
Interest income from loans	0	0
Interest income from a reduction in provisions for anticipated losses from interest rate swaps	119	28
Other interest income	51	31
Interest income	**195**	**68**
Interest expense for liabilities to banks	– 617	– 485
Interest expense from interest rate swaps	– 3	0
Interest expense for provisions for pensions and partial retirement schemes	– 22	– 10
ABS	– 69	– 67
Interest expense from tax liabilities	0	– 112
Other interest expenses	– 37	– 5
Interest and similar expenses	**– 748**	**– 679**
Interest income/expense	**– 553**	**– 611**

(45) TAXES ON INCOME AND DEFERRED TAXES

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

Tax expense by origin (in kEUR)

	2016	2017
Current taxes Germany	7,670	8,350
Current foreign taxes	2,003	2,031
Current taxes for the financial year	**9,673**	**10,381**
Taxes for prior periods	570	965
Current taxes on income	**10,243**	**11,346**
Deferred taxes Germany	– 513	76
Deferred foreign taxes	– 160	–364
Deferred taxes	**– 673**	**– 288**
Tax expense reported in the statement of profit or loss and other comprehensive income	**9,570**	**11,058**

The expected expense for taxes on income, which would have arisen by applying the tax rate of the controlling Group parent FRoSTA AG of 30.66% (2016: 30.66%) to the IFRS consolidated pre-tax profit, can be reconciled as follows to taxes on income as reported in the statement of profit or loss and other comprehensive income:

Tax expense reconciliation (in kEUR)

	2016	2017
Earnings before taxes on income	**31,138**	**34,411**
Tax rate of FRoSTA AG	30.66%	30.66%
Expected tax expense	**9,547**	**10,550**
Different tax rates (especially for deferred taxes)	– 953	–461
Taxes on income for prior periods	570	965
Tax expense for non-deductible operating expenses	455	41
Tax relief from tax-exempted income	– 49	–37
Tax expense reported in the statement of profit or loss and other comprehensive income	**9,570**	**11,058**

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.

Deferred tax assets and liabilities (In kEUR)

	31/12/2016		31/12/2017	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	3	15	3	109
Property, plant and equipment	192	2,145	279	1,843
Financial assets	216	0	222	0
Inventories	0	178	0	224
Trade receivables	0	11	0	35
Other assets	0	281	1	0
Pension provisions	175	0	185	0
Other provisions	950	0	718	0
Trade payables	0	16	2	21
Other liabilities	412	3	453	1
Total	**1,948**	**2,649**	**1,863**	**2,233**
Netting	– 1,203	– 1,203	– 709	–709
Balance	**745**	**1,446**	**1,154**	**1,524**

(47) ## EARNINGS PER SHARE

Earnings per share

		2016	2017
Consolidated profit for the year	**kEUR**	**21,568**	**23,352**
Number of ordinary shares in circulation	in 1,000	6,813	6,813
Consolidated profit for the year per share	**EUR**	**3.17**	**3.43**

The EUR 3.43 (2016: EUR 3.17) figure is recognised in respect of both basic and diluted earnings per share.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(48) ## COMPOSITION OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents is made up of cash in hand and credit at banks in the amount of kEUR 14,578 (2016: kEUR 14,903).

(49) # SEGMENT REPORTING

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

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

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

Segment reporting (in mEUR)

	FRoSTA segment			COPACK segment			Total		
	2016	**2017**	**+/–**	**2016**	**2017**	**+/–**	**2016**	**2017**	**+/–**
Revenue	**227.2**	**263.5**	**16.0%**	**238.9**	**237.6**	**0.5%**	**466.1**	**501.1**	**7.5%**
Gross profit	**100.8**	**119.5**	**18.6%**	**87.9**	**87.5**	**–0.4%**	**188.6**	**207.0**	**9.8%**
in % of revenue	44.4%	45.3%		36.8%	36.8%		40.5%	41.3%	
Personnel expenses	–32.3	–36.9	14.5%	–36.1	–36.0	–0.1%	–68.3	–73.0	6.8%
Amortisation and depreciation	–5.6	–7.1	25.0%	–6.6	–7.3	11.4%	–12.2	–14.4	17.7%
Other operating expenses	–37.8	–46.8	23.9%	–38.7	–38.0	–1.8%	–76.5	–84.8	10.9%
Operating result (EBIT)	**25.1**	**28.7**	**14.5%**	**6.5**	**6.2**	**–5.4%**	**31.6**	**34.9**	**10.4%**
in % of revenue	11.0%	10.9%		2.7%	2.6%		6.8%	7.0%	
Net finance costs/income	–0.2	–0.3	10.9%	–0.2	–0.2	–6.0%	–0.5	–0.5	2.4%
Profit/loss from ordinary operating activities	**24.9**	**28.5**	**14.5%**	**6.3**	**5.9**	**–5.3%**	**31.1**	**34.4**	**10.5%**
Taxes	–7.6	–9.1	19.7%	–1.9	–1.9	–1.0%	–9.6	–11.1	15.6%
Consolidated profit for the year	**17.2**	**19.3**	**12.2%**	**4.4**	**4.0**	**7.2%**	**21.6**	**23.4**	**8.3%**
in % of revenue	7.6%	7.3%		1.8%	1.7%		4.6%	4.7%	

Segment reporting (in mEUR)

	Germany			Outside Germany			Total		
	2016	**2017**	**+/–**	**2016**	**2017**	**+/–**	**2016**	**2017**	**+/–**
Revenue	**266.7**	**290.4**	**8.9%**	**199.3**	**210.7**	**5.7%**	**466.1**	**501.1**	**7.5%**
Gross profit	**106.6**	**118.2**	**10.8%**	**82.0**	**88.9**	**8.4%**	**188.6**	**207.0**	**9.8%**
in % of revenue	40.0%	40.7%		41.1%	42.2%		40.5%	41.3%	
Personnel expenses	–39.6	–43.0	8.4%	–28.7	–30.0	4.6%	–68.3	–73.0	6.8%
Amortisation and depreciation	–7.6	–9.1	18.7%	–4.6	–5.3	16.0%	–12.2	–14.4	17.7%
Other operating expenses	–43.8	–47.8	9.1%	–32.7	–37.0	13.2%	–76.5	–84.8	10.9%
Operating result (EBIT)	**15.5**	**18.3**	**18.0%**	**16.1**	**16.6**	**3.1%**	**31.6**	**34.9**	**10.4%**
in % of revenue	5.8%	6.3%		8.1%	7.9%		6.8%	7.0%	
Net finance costs/income	–0.3	–0.3	3.6%	–0.2	–0.2	0.6%	–0.5	–0.5	2.4%
Profit/loss from ordinary operating activities	**15.3**	**18.0**	**18.2%**	**15.9**	**16.4**	**3.1%**	**31.1**	**34.4**	**10.5%**
Taxes	–4.7	–5.8	23.6%	–4.9	–5.3	7.8%	–9.6	–11.1	15.6%
Consolidated profit for the year	**10.6**	**12.2**	**15.8%**	**11.0**	**11.1**	**1.0%**	**21.6**	**23.4**	**8.3%**
in % of revenue	4.0%	4.2%		5.5%	5.3%		4.6%	4.7%	

Net income from investments amounting to kEUR 128 (2016: kEUR 82) relates to income from the investment in Columbus Spedition.

In the financial year 2017, one customer contributed more than 10% to Group revenue with revenue of kEUR 59,839 (2016: kEUR 52,491) in the FRoSTA and COPACK segments.

OTHER DISCLOSURES

(50)

PRIMARY FINANCIAL INSTRUMENTS

Primary financial instruments (in kEUR)

	31/12/2016		31/12/2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Liabilities to banks	27,619	28,032	44,565	44,846
Other financial liabilities	8,610	8,610	8,665	8,665

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

(51)

CONTINGENT LIABILITIES

The FRoSTA Group believes there are no significant contingent liabilities.

(52)

OTHER FINANCIAL OBLIGATIONS

Other financial obligations (in kEUR)

	2016	**2017**
Obligations arising from current lease agreements	1,665	2,516
Obligations under current rental and maintenance contracts	3,021	3,308
Purchase commitments from expansion investments	4,165	7,006
Consignment agreements	2,511	2,622
Other financial obligations	**11,362**	**15,452**

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

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

Remaining maturities of rental, maintenance and lease agreements as at 31 December 2017

	< 1 year	**1 – 5 years**	**> 5 years**
Future payments from current lease agreements	927	1,528	61
Future payments from current rental and maintenance contracts	2,912	394	2
Total	**3,839**	**1,922**	**63**

Total expenditure from rental and lease agreements amounted to kEUR 4,215 (2016: kEUR 3,798).

AUDITORS'S FEES (53)

Auditors' fees (in kEUR)

Auditing services	66
Other assurance services	18
Total	**84**

RELATED PARTIES (54)

EXECUTIVE BOARD

The following persons were members of the Executive Board of FRoSTA AG in the financial year 2017:

- Felix Ahlers, businessman, Hamburg, Chairman
  As at 31 December 2017: 2,284,164 FRoSTA shares = 33.5%.
- Maik Busse, businessman, Bremerhaven, Vice President Business Partnering and Administration
- Hinnerk Ehlers, businessman, Hamburg, Vice President Marketing, Sales and Human Resources
- Jürgen Marggraf, businessman, Bremen, Vice President Operations, Vice Chairman

The total number of FRoSTA shares owned by the Executive Board members as at 31 December 2017 was 2,327,664 shares = 34.2%.

SUPERVISORY BOARD

The following persons were members of the Supervisory Board of FRoSTA AG in the financial year 2017:

- Dirk Ahlers, businessman, Hamburg, Chairman of the Supervisory Board;
  As at 31 December 2017: 681,259 FRoSTA shares = 10.0%
- Oswald Barckhahn, businessman, Amsterdam/Netherlands, Vice Chairman of the Supervisory Board
- Jürgen Schimmelpfennig, Chairman of the Works Council of FRoSTA AG, Bremerhaven

The total number of FRoSTA AG shares owned by the Supervisory Board as at 31 December 2017 was 683,459 shares = 10.0%.

OTHER

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

In 2017, Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co. KG, Hamburg, a company of which Dirk Ahlers is Managing Partner, invoiced kEUR 61 (2016: kEUR 40). Charges to Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co. KG, Hamburg, in the amount of kEUR 70 (2016: kEUR 4).

Deliveries of goods from Bulgaria Foods Ltd., a 100% shareholding of Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co. KG, Hamburg, a company of which Dirk Ahlers is Managing Partner, amounting to kEUR 126 (2016: kEUR 318). Deliveries of goods to Bulgaria Foods Ltd. totalling kEUR 3.

In 2017, Columbus Spedition GmbH invoiced kEUR 1,725 (2016: kEUR 1,888).

Selling expenses from a non-consolidated subsidiary in the amount of kEUR 349 (2016: kEUR 325).

As at 31 December 2017, business relations with related parties gave rise to liabilities totalling kEUR 160.

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

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

(55)

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

- a fixed basic annual salary
- a variable remuneration for the purchase of FRoSTA shares
- a variable remuneration dependent on the consolidated pre-tax profit for the year
- a long-term bonus component oriented towards the 3-year average return on investment (ROI) of FRoSTA AG.

The total remuneration of the Executive Board for the financial year 2017 amounted to kEUR 4,267.6 (2016: kEUR 4,161). Of this, the fixed remuneration came to kEUR 1,110.4 (2016: kEUR 1,000) and variable remuneration to kEUR 3,157.2 (2016: kEUR 3,161).

Total remuneration of the executive board (in EUR)

	2015	2016	2017			
			Target at 100 % goal achievement	Goal achievement in % (performance)	Effective remuneration	+/– previous year
Fixed remuneration components						
Fixed salary	1,066,956	882,450			972,006	10.1%
Other non-cash benefits	140,737	117,372			138,381	17.9%
Total fixed remuneration	**1,207,693**	**999,822**			**1,110,387**	**11.1%**
Variable remuneration components						
Short-term bonus	1,702,799	1,800,956	1,674,783	100%	1,674,783	–7.0%
Long-term bonus	445,355	558,948	380,000	175%	664,232	18.8%
Remuneration to purchase shares	860,772	801,307	843,344	97%	818,227	2.1%
Total variable remuneration	**3,008,926**	**3,161,211**	**2,898,127**	**109%**	**3,157,242**	**–0.1%**
Total remuneration	**4,216,619**	**4,161,033**			**4,267,629**	**2.6%**

The total remuneration of former members of the Executive Board was kEUR 55 in the 2017 financial year (2016: kEUR 54). Pension provisions for former Executive Board members amounted to kEUR 430 on the balance sheet date (2016: kEUR 466).

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

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

The remuneration of the Supervisory Board totalled kEUR 125, of which kEUR 35 was variable and kEUR 90 was fixed remuneration. The remuneration of the previous year at kEUR 125 comprised variable remuneration of kEUR 111 and fixed remuneration of kEUR 14.

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

(56) APPROPRIATION OF PROFITS

Based on 6,812,598 no-par value bearer shares, less 228 no-par value bearer treasury shares not entitled to a dividend in accordance with Section 71b of the German Stock Corporation Act (AktG), this results in 6,812,370 no-par value bearer shares entitled to a dividend. At the Annual General Meeting, we will be proposing a gross dividend payment of EUR 1.60 per share corresponding to a total dividend payment of EUR 10,899,792.00. This payment will be taken from the net profit for the year reported by FRoSTA AG as at 31 December 2017 of EUR 18,953,489.31. The remaining EUR 8,053,697.31 will be allocated to other retained earnings. The gross dividend is subject to capital gains tax (25%) amounting to EUR 2,724,948.00 as well as a 5.5% solidarity surcharge of EUR 149,872.14. This results in a net dividend payment of EUR 8,024,971.86. The shareholders of the parent company are fully entitled to the profits. No non-controlling interests are held in the FRoSTA AG Group.

(57) RISK REPORT

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

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

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

Bremerhaven, 9 March 2018

The Executive Board

Felix Ahlers　　Maik Busse

Hinnerk Ehlers　　Jürgen Marggraf

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

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

Bremerhaven, 9 March 2018

The Executive Board

Felix Ahlers　　Maik Busse

Hinnerk Ehlers　　Jürgen Marggraf

AUDITOR'S REPORT

We have audited the consolidated financial statements – comprising the balance sheet, statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows and the notes – as well as the consolidated management report for the Company and the Group prepared by FRoSTA Aktiengesellschaft, Bremerhaven, for the financial year from 1 January to 31 December 2017. The preparation of the consolidated financial statements and the consolidated management report of the Company and the Group in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB (Handelsgesetzbuch: German Commercial Code) are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report for the Company and the Group based on our audit.

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

Our audit has not led to any reservations.

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

Bremen, 21 March 2018

BDO AG
Wirtschaftsprüfungsgesellschaft

Renken
German Public Auditor

Weichert
German Public Auditor

ANNUAL FINANCIAL STATEMENTS OF FRoSTA AG

Here at FRoSTA, we believe further development is best managed as a team: so behind all decisions, processes and sustainability activities stands an energetic and motivated team.

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

Income statement of FRoSTA AG in accordance with the German Commercial Code (HGB) (in kEUR)

		2016	2017	Impact on profit/loss
1.	**Sales**	**442,654**	**458,545**	**3.6%**
2.	Increase in inventories of unfinished goods	4,306	1,454	–66.2%
3.	Other own work capitalised	79	105	32.9%
4.	Other operating income – of which from currency translation: kEUR 1,422 (2016: kEUR 2,149)	8,133	13,013	60.0%
5.	Cost of materials			
	a) Cost of raw materials, consumables and supplies and of purchased merchandise	–288,649	–293,769	–1.8%
	b) Cost of purchased services	–7,776	–8,053	–3.6%
		–296,425	**–301,822**	**–1.8%**
6.	Personnel expenses			
	a) Wages and salaries	–50,721	–53,559	–5.6%
	b) Social security, post-employment and other employee benefit costs – of which post-employment benefits: kEUR 44 (2016: kEUR 37)	–8,509	–9,049	–6.3%
		–59,230	**–62,608**	**–5.7%**
7.	Amortisation and write-downs of intangible fixed assets, depreciation and write-downs of tangible fixed assets	–7,828	–9,228	–17.9%
8.	Other operating expenses – of which from currency translation: kEUR 1,465 (2016: kEUR 1,428)	–67,300	–70,513	–4.8%
9.	**Operating result**	**24,389**	**28,946**	**18.7%**
10.	Income from long-term equity investments	82	128	56.7%
11.	Other interest and similar income – of which from affiliated companies: kEUR 97 (2016: kEUR 10)	117	145	24.0%
12.	Interest and similar expenses – of which to affiliated companies: kEUR 36 (2016: kEUR 17) – of which from discounting: kEUR 77 (2016: kEUR 98)	–751	–749	0.3%
13.	**Result from ordinary operating activities**	**23,837**	**28,470**	**19.4%**
14.	Taxes on income	**–8,206**	**–9,338**	**–13.8%**
15.	Earnings after taxes	15,631	19,132	22.4%
16.	Other taxes	–180	–179	0.6%
17.	Net income for the year	15,451	18,953	22.7%
18.	**Net retained profits**	**15,451**	**18,953**	**22.7%**

BALANCE SHEET OF FRoSTA AG IN ACCORDANCE WITH HGB – ASSETS

ANNUAL FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

Balance sheet of FRoSTA AG – Assets (in kEUR)

	2016	2017	Change
A. Fixed assets			
I. Intangible assets			
Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets			
	1,220	**8,650**	**> 100,0%**
II. Tangible assets			
1. Land, land rights and buildings	19,568	19,880	1.6%
2. Technical equipment and machinery	32,844	34,057	3.7%
3. Other operating and office equipment	8,679	9,578	10.4%
4. Prepayments and assets under construction	653	3,914	> 100.0%
	61,744	**67,429**	**9.2%**
III. Long-term financial assets			
1. Shares in affiliated companies	11,069	11,249	1.6%
2. Loans to affiliated companies	0	0	0.0%
3. Other long-term equity investments	17	17	0.0%
4. Long-term securities and shares in cooperatives	6	6	0.0%
5. Other loans	0	0	0.0%
	11,092	**11,272**	**1.6%**
	74,056	**87,351**	**18.0%**
B. Current assets			
I. Inventories			
1. Raw materials, consumables and supplies	24,002	21,900	–8.8%
2. Work in progress	16,114	18,659	15.8%
3. Finished goods and merchandise	23,591	22,614	–4.1%
	63,707	**63,173**	**–0.8%**
II. Receivables and other assets			
1. Trade receivables	74,759	73,214	–2.1%
2. Receivables from affiliated companies	6,985	17,835	> 100.0%
3. Other assets	3,078	5,289	71.8%
	84,822	**96,338**	**13.6%**
III. Cash-in-hand, bank balances and cheques	10,347	7,799	–24.6%
	158,876	**167,310**	**5.3%**
C. Prepaid Expenses	**214**	**509**	**> 100.0%**
D. Excess of plan assets over pension liability	**25**	**10**	**–59.9%**
Balance sheet total	**233,171**	**255,180**	**9.4%**

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

ANNUAL FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

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

	2016	2017	Change
A. Equity			
I. Issued capital			
1. Subscribed capital	17,440	17,440	0.0%
2. Treasury shares	–27	0	100.0%
	17,413	**17,440**	**0.2%**
II. Capital reserves			
	11,447	**11,447**	**0.0%**
III. Revenue reserves			
1. Legal reserve	200	200	0.0%
2. Other revenue reserves	63,913	69,737	9.1%
	64,113	**69,937**	**9.1%**
IV. Net retained profits			
	15,451	**18,953**	**22.7%**
	108,424	**117,778**	8.6%
B. Provisions			
1. Provisions for pensions and similar obligations	497	472	–5.0%
2. Provisions for taxes	2,343	4,045	72.6%
3. Other provisions	42,763	34,606	–19.1%
	45,603	**39,123**	**–14.2%**
C. Liabilities			
1. Liabilities to banks	27,619	44,565	61.4%
2. Trade payables	30,033	32,885	9.5%
3. Liabilities to affiliated companies	17,175	16,327	–4.9%
4. Other liabilities – of which from taxes: kEUR 537 (2016: kEUR 518)	4,308	4,502	4.5%
	79,135	**98,279**	**24.2%**
D. Deferred income	**9**	**0**	**–100.0%**
Balance sheet total	**233,171**	**255,180**	**9.4%**

STATEMENT OF CHANGES IN FIXED ASSETS OF FRoSTA AG (HGB)

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

		Purchase and production costs				
		As at 01/01/2017	Additions	Disposals	Reclassifications	As at 31/12/2017
I.	**Intangible assets**					
	Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	13,847	7,978	0	11	21,836
		13,847	**7,978**	**0**	**11**	**21,836**
II.	**Tangible assets**					
	1. Land, land rights and buildings	73,938	2,028	31	38	75,973
	2. Technical equipment and machinery	144,344	5,771	749	408	149,774
	3. Other equipment, operating and office equipment	46,992	2,679	−423	186	49,434
	4. Prepayments and assets under construction	653	3,904	0	−643	3,914
		265,927	**14,382**	**1,203**	**−11**	**279,095**
III.	**Long-term financial assets**					
	1. Shares in affiliated companies	11,520	500	320	0	11,700
	2. Loans to affiliated companies	301	0	0	0	301
	3. Other long-term equity investments	193	0	0	0	193
	4. Long-term securities and shares in cooperatives	0	0	0	0	6
	5. Other loans	22	0	0	0	22
		12,042	**500**	**320**	**0**	**12,222**
		291,816	**22,860**	**1,523**	**0**	**313,153**

Cumulative depreciation, amortisation and write-downs				Net carrying amount	
As at 01/01/2017	Additions	Disposals	As at 31/12/2017	As at 31/12/2017	As at 31/12/2016
12,627	559	0	13,186	8,650	1,220
12,627	**559**	**0**	**13,186**	**8,650**	**1,220**
54,370	1,749	26	56,093	19,880	19,568
111,500	4,963	746	115,717	34,057	32,844
38,313	1,957	414	39,856	9,578	8,679
0	0	0	0	3,914	653
204,183	**8,669**	**1,186**	**211,666**	**67,429**	**61,744**
451	0	0	451	11,249	11,069
301	0	0	301	0	0
176	0	0	176	17	17
0	0	0	0	6	6
22	0	0	22	0	0
950	**0**	**0**	**950**	**11,272**	**11,092**
217,760	**9,228**	**1,186**	**225,802**	**87,351**	**74,056**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE 2017 FINANCIAL YEAR

FRoSTA AKTIENGESELLSCHAFT, BREMERHAVEN

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

(1)

BASIS FOR PREPARATION

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

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

(2)

ACCOUNTING POLICIES AND MEASUREMENT METHODS

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

INCOME STATEMENT

FRoSTA AG prepares its income statement using the total cost (nature of expense) method.

FIXED ASSETS

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

Purchased trademark rights are capitalised at cost. Due to their unlimited use, these assets are not amortised over a planned useful life. They are tested annually for impairment. Where necessary, write-downs are recognised for impairment losses.

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

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

Depreciation period of tangible assets

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

Write-downs are recognised for foreseeable permanent impairments.

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

A fixed value is assigned to recognised transport pallets.

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

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

CURRENT ASSETS

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

In addition to direct costs, production costs also include an appropriate share of the production and material overheads as well as of the depreciation in the value of fixed assets. General administration costs as well as social expenses, voluntary social benefits and Company pension schemes are not capitalised. Write-downs are measured at the lower of cost or market value and recognised for inventory risks due to excessive storage times or reduced usability. Write-downs for finished goods as at the balance sheet date amounted to kEUR 821 (2016: kEUR 662) as well as kEUR 120 (2016: kEUR 79) for raw materials, consumables and supplies.

Receivables and other assets are shown at nominal value.

Default and credit risks are accounted for by specific or global valuation allowances. The percentage used to calculate the global valuation allowance is 1.0.

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

PREPAID EXPENSES

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

DEFERRED TAXES

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

OFFSETTING ASSETS AND LIABILITIES, INCOME AND EXPENSES

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

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

PENSIONS AND SIMILAR OBLIGATIONS

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

The following additional assumptions are used:

Measurement parameters	
Assumed interest rate p.a.	3.68% (10-year average)
Pension trend p.a.	1.60%

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

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

OTHER PROVISIONS

In this account, the company has set aside appropriate and adequate provisions for all identifiable risks and contingent liabilities and for expected losses from executory contracts. The provisions are recognised in accordance with sound business judgement with the expected settlement amount.

Partial retirement obligations are measured in accordance with statement IDW RS HFA 3 published by the Accounting and Auditing Board (HFA) of the Institute of Public Auditors in Germany (IDW). Interest expense is recognised in the net financial result.

Jubilee obligations are measured in accordance with recognised actuarial principles using the projected unit credit method. Any increases of salaries and pensions to be expected for the future are taken into account in determining the present value. Since 1 January 2010, the interest rate published by the Deutsche Bundesbank has been used for discounting. Interest expense is recognised in the net financial result.

Time account reinsurance policies have been taken out to cover partial retirement commitments. For the offsetting of liabilities against assets and income and expenses, please refer to the section "Excess of plan assets over pension liability".

LIABILITIES

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

DEFERRED INCOME

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

CURRENCY TRANSLATION

Foreign currency transactions are initially translated to the functional currency at the applicable spot exchange rate on the date the transaction occurred.

Trade payables in foreign currencies are generally measured at the average exchange rate at the balance sheet date. Unrealised profits and losses are recognised. Derivative financial instruments, in contrast, are recognised according to the imparity principle, i.e. provisions are created for negative values whereas positive values are not recognised.

(3)

BALANCE SHEET DISCLOSURES

FIXED ASSETS

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

In the 2017 financial year, no write-downs were recognised (2016: kEUR 0) with respect to the financial assets of FRoSTA AG.

The value of recognised transport pallets was fixed at kEUR 327 (2016: kEUR 327).

The impairment in relation to the purchase or production costs of fixed assets to which investment grants and subsidies relate as at 31 December 2017 amounted to kEUR 573 (2016: kEUR 748). The reversal of investment grants and subsidies of kEUR 175 (2016: kEUR 258) directly reduces gross depreciation/amortisation.

Equity investments (in kEUR)

Name and registered seat of entity	Share of capital in %	Subscribed capital	Equity	Annual profit/loss 2016	Annual profit/loss 2017
1. COPACK Tiefkühlkost-Produktions GmbH, Bremerhaven	100.00	256	238	– 2	–4
2. FRoSTA Tiefkühlkost GmbH, Bremerhaven	100.00	255	266	2	1
3. FRoSTA Foodservice GmbH, Bremerhaven	100.00	256	270	1	1
4. TIKO Vertriebsgesellschaft mbH, Bremerhaven	100.00	256	276	2	1
5. FRoSTA Sp. z o.o., Bydgoszcz/Poland	100.00	8,383	46,597	7,270	4,543
6. COPACK France S.a.r.l., (formerly FRoSTA France S.a.r.l) Boulogne-Billancourt/France	100.00	153	377	12	10
7. FRoSTA Italia S.r.l., Rome/Italy	100.00	10	521	65	67
8. FRoSTA CR s.r.o., Prague/Czech Republic	100.00	39	231	6	7
9. FRoSTA Hungary Kft., Esztergom/Hungary	100.00	21	74	8	15
10. FRoSTA S.r.l., Rome/Italy	100.00	500	1,421	0	921
11. COPACK Sp. z o.o., Bydgoszcz/Poland	100.00	17	1	– 2	–2
12. Columbus Spedition GmbH, Bremerhaven	33.33	225	478[1]	253	[2]

[1] relates to 2016 [2] no data available

Elbtal Tiefkühlkost Vertriebs GmbH, Feldgemüse GmbH, Lommatzsch and Bio-Freeze GmbH were merged with FRoSTA AG during the current financial year.

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

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

(4) RECEIVABLES AND OTHER ASSETS

Receivables from affiliated companies include receivables from intercompany deliveries and services amounting to kEUR 2,098 (2016: kEUR 2,166) and current account transactions amounting to kEUR 685 (2016: kEUR 1,319) and from financing activities in an amount of kEUR 15,053 (2016: kEUR 3,500).

Receivables from financing activities totalling kEUR 8,774 are due within more than 1 year (2016: kEUR 3,281).

As at 31 December 2017, trade receivables of kEUR 14,081 (2016: kEUR 6,695) were sold in asset-backed security transactions. The sale of the receivables made funds amounting to kEUR 11,251 available at an earlier date. Conversely, charges of kEUR 100 were incurred.

Of the other assets, kEUR 48 (2016: kEUR 44) have a residual term of more than one year.

(5) EXCESS OF PLAN ASSETS OVER PENSION LIABILITY

The excess of plan assets over pension liability amounted to kEUR 9 (2016: kEUR 25). The fair value of assets invested amounted to kEUR 127 (2016: kEUR 70); procurement costs amounted to kEUR 126 (2016: kEUR 69).

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

(6) EQUITY

At 31 December 2017, share capital amounted to EUR 17,440,250.88 and was divided into 6,812,598 no-par value shares classified as ordinary shares. The shares are made out to the bearer.

In accordance with a resolution passed at the Annual General Meeting on 23 June 2017, it was decided to allocate the sum of EUR 5,262,877.89 from the net retained profits of EUR 15,450,769.89 to other revenue reserves. Revenue reserves include profits generated in prior periods to the extent that they were not distributed. Additionally, the portion of purchase costs exceeding the nominal value of the shares acquired through the share buyback is reported as a reduction of revenue reserves (change: kEUR -574.8).

A total of 228 FRoSTA AG no-par value bearer shares held as treasury shares with a nominal value of EUR 583.68 or 0.01% of the share capital were offset against equity. The purchase cost amount of kEUR 17,200.42 exceeding the nominal value is reported as a reduction of revenue reserves.

These 228 no-par value bearer treasury shares result from the following purchase and sales transactions:

In addition to the 10,468 treasury shares with a nominal value of EUR 26,798.08 acquired in a share buy-back between 6 January 2016 and 29 December 2016, FRoSTA AG acquired a further 40,979 treasury shares in a share buyback between 4 January 2017 and 4 October 2017. This corresponds to a nominal amount of EUR 104,906.24, or 0.60% of the equity. This cost the Company EUR 2,827,460.98, which equates to a weighted average price of EUR 69.00 per share.

FRoSTA AG subsequently sold a total of 51,219 no-par value bearer treasury shares as part of various share-based payments and employee share programmes. This corresponds to a nominal amount of EUR 131,120.64 or 0.75% of the equity as at 31 December 2017. For 42,339 no-par value bearer shares sold under an employee share programme, FRoSTA AG received a total of EUR 1,141,788 to be used as it sees fit. As part of a bonus scheme, the Company issued 8,880 shares to employees at management level.

The share buy-backs were quantified on the basis of the previous year's share-based payments and employee share programmes. Since more shares were sold under the employee share programme in the financial year 2017, the number of FRoSTA AG no-par value bearer shares held as treasury shares has declined to 228. Under Section 71b of the German Stock Corporation Act (AktG), the no-par value bearer shares held as treasury shares are not entitled to any rights.

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

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS (7)

The amount required to cover pension provisions applies exclusively to pensioners already receiving a pension. The carrying amount pursuant to Section 253 (2) HGB applying the ten-year average interest rate of 3.68% was kEUR 472 in the financial year 2017. Applying the seven-year average interest rate pursuant to Section 253 (6) HGB of 2.80% would have produced a carrying amount of kEUR 495.

In 2016, the carrying amount applying a seven-year average interest rate of 3.24% was kEUR 519.

The difference amounting to kEUR 23 resulting from the change in interest rate for the financial year 2017 is subject to a distribution limitation.

OTHER PROVISIONS (8)

Other provisions include provisions for personnel expenses amounting to kEUR 11,903. This includes provisions for jubilee benefits with a settlement amount of kEUR 1,606. The discount rate on which this is based is 2.80%, assuming a residual term of 15 years. Provisions are also recognised for contingent liabilities in connection with the relocation of a production line in the amount of kEUR 1,048.

Provisions for partial retirement are recognised with a settlement amount of kEUR 297.

This was also determined based on a discount rate of 2.80% . As the plan assets in the amount of kEUR 127 are assigned on the basis of individual partial retirement obligations, the principle of item-by-item measurement resulted in an excess of assets of kEUR 9 as well as a provision for partial retirement obligations of kEUR 179.

Provisions are also recognised for potential VAT back payments relating to prior accounting periods in the amount of kEUR 2,510 and outstanding invoices amounting to kEUR 2,399. Other provisions also relate to obligations arising from sales-related agreements on terms and conditions totalling kEUR 16,148.

(9) LIABILITIES

Liabilities (in kEUR)

	Total amount	of which due within		
		up to 1 year	more than 1 year	more than 5 years
Liabilities to banks (previous year)	44,565 (27,619)	18,538 (9,904)	26,027 (17,715)	5,017 (4,519)
Trade payables (previous year)	32,885 (30,033)	32,885 (30,033)	0 (0)	0 (0)
Liabilities to affiliated companies (previous year)	16,327 (17,175)	16,327 (17,175)	0 (0)	0 (0)
Other liabilities (previous year)	4,502 (4,308)	4,502 (4,308)	0 (0)	0 (0)
	98,279 **(79,135)**	**72,252** **(61,420)**	**26,027** **(17,715)**	**5,017** **(4,519)**

The liabilities to banks are guaranteed by mortgages amounting to kEUR 12,561 (2016: kEUR 10,141) and similar rights amounting to kEUR 833 (2016: kEUR 1,055) (total kEUR 13,394, 2016: kEUR 11,196).

The customary retentions of title apply to trade payables.

Liabilities to affiliated companies result from inter-company deliveries and services amounting to kEUR 4,551 (2016: kEUR 8,833) and current account transactions amounting to kEUR 2,276 (2016: kEUR 2,245) and from financing activities in an amount of kEUR 9,500 (2016: kEUR 6,096).

INCOME STATEMENT DISCLOSURES

(10)
SALES

Sales by region (in mEUR)

	2016	2017	Change
Germany	349	367	5.2%
Outside Germany	178	181	1.7%
	527	**548**	**4.0%**
Sales allowances	85	89	4.7%
	442	**459**	**3.8%**

Sales by product group (in mEUR)

	2016	2017	Change
Fish	197	212	7.6%
Fruit and vegetables	114	133	16.7%
Ready meals and other products	131	114	– 13.0%
	442	**459**	**3.8%**

PRIOR-PERIOD INCOME AND EXPENSE (11)

The income statement of FRoSTA AG includes income relating to prior accounting periods of kEUR 7,294 (2016: kEUR 3,406) and expenses relating to prior accounting periods in the amount of kEUR 338 (2016: kEUR 866). Prior-period income mainly relates to the derecognition of advertising expense allowances and bonus payments, the reversal of personnel provisions and other provisions.

OFFSETTING OF INCOME AND EXPENSES (12)

Income from plan assets amounting to kEUR 1 (2016: kEUR 1) was offset against interest expense for partial retirement benefit obligations amounting to kEUR 1 (2016: kEUR 1).

TAXES ON INCOME (13)

This item includes, among other things, tax expense of kEUR 989 (2016: kEUR 538) relating to prior accounting periods.

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

Deferred tax assets and liabilities (in kEUR)

	31/12/2016		31/12/2017	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	0	15	0	109
Tangible assets	0	98	0	13
Other financial assets	216	0	222	0
Prepaid expenses/deferred income	0	0	0	0
Provisions for pensions	27	0	23	0
Other provisions	712	0	385	0
Trade payables	0	21	0	28
Total	**955**	**134**	**630**	**150**
Netting	– 134	– 134	– 150	– 150
Balance	**821**	**0**	**480**	**0**

The temporary differences were measured based on the combined tax rate of corporation tax and trade tax of 30.66% (2016: 30.66%).

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

OTHER DISCLOSURES

(14) ## OTHER FINANCIAL OBLIGATIONS

Other financial obligations (in kEUR)

	31/12/2016	31/12/2017
Obligations arising from current lease agreements	1,399	2,275
Obligations under current rental and maintenance contracts	2,877	2,942
Purchase commitments from expansion investments	3,558	6,415
Consignment agreements	2,512	2,622
	10,346	**14,254**

Remaining maturities of rental, maintenance and lease agreements as at 31 December 2017 (in kEUR)

	< 1 year	1 – 5 years	> 5 years
Future payments from current lease agreements	794	1,420	61
Future payments from current rental and maintenance contracts	2,608	332	2
Purchase commitments from expansion investments	6,415	0	0
Consignment agreements	2,622	0	0
	12,439	**1,752**	**63**

(15) ## HEDGING TRANSACTIONS/DERIVATIVES

Currency hedging is used to hedge incoming payments in GBP and outgoing payments in USD. Derivative financial instruments are accounted for at cost when purchased. As at the balance sheet date, the banks determine the fair values on the basis of market quotations. Hedging transactions are measured in accordance with the imparity principle, whereby provisions for contingent losses are recognised for negative market values whereas unrealised gains are not recognised. These are reported under other provisions. Interest rate swaps are entered into in order to hedge interest risks.

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

Hedging transactions/derivatives

Financial instrument	Type	Period	Underlying transaction	Scope in kEUR	Fair value in kEUR
Currency forwards	Purchase kUSD	28/08/2017 – 13/12/2018	20,280	17,053	– 265
Currency swaps	Purchase kUSD	21/12/2017 – 11/01/2018	771	647	– 5
Interest rate swaps	Loan kEUR	30/06/2008 – 31/03/2018	314	314	– 2

(16) ## AUDITORS' FEES AND SERVICES

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

NUMBER OF EMPLOYEES (17)

Employees (annual average)

	2016	2017
Wage earners	577	596
Salaried staff	295	297
Temporary employees	149	184
Number of employees pursuant to Section 285 No. 7 HGB	**1,021**	**1,077**
Apprentices	30	34
	1,051	**1,111**

(18) EXECUTIVE BOARD

The following persons were members of the Executive Board of FRoSTA AG in the financial year 2017:

- Felix Ahlers, businessman, Hamburg, Chairman
  As at 31 December 2017: 2,284,164 FRoSTA shares = 33.5%.
- Hinnerk Ehlers, businessman, Hamburg, Vice President Marketing, Sales and Human Resources
- Maik Busse, businessman, Bremerhaven, Vice President Business Partnering and Administration
- Jürgen Marggraf, businessman, Bremen, Vice President Operations, Vice Chairman

The total number of FRoSTA shares owned by the Executive Board as at 31 December 2017 was 2,327,664 shares = 34.2%.

(19) SUPERVISORY BOARD

The following persons were members of the Supervisory Board of FRoSTA AG in the financial year 2017:

- Dirk Ahlers, businessman, Hamburg, Chairman of the Supervisory Board, former Chairman of the Executive Board
  As at 31 December 2017: 681,259 FRoSTA shares = 10.0%.
- Oswald Barckhahn, businessman, Amsterdam, Netherlands, Vice Chairman of the Supervisory Board, Jacobs Douwe Eegberts
- Jürgen Schimmelpfennig, Chairman of the Works Council of FRoSTA AG, Bremerhaven

The total number of FRoSTA AG shares owned by the Supervisory Board as at 31 December 2017 was 683,459 shares = 10.0%.

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

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

- a fixed basic annual salary
- a variable remuneration for the purchase of FRoSTA shares
- a variable remuneration dependent on consolidated pre-tax profit
- a long-term bonus component oriented towards the 3-year average return on investment (ROI) of FRoSTA AG.

The total remuneration of the Executive Board of FRoSTA AG in the financial year amounted to kEUR 4,267.6 (2016: kEUR 4,161). Of this, the fixed remuneration came to kEUR 1,110.4 (2016: kEUR 1,000) and variable remuneration to kEUR 3,157.2 (2016: kEUR 3,161).

The total remuneration of former members of the Executive Board of FRoSTA AG was kEUR 55 in the financial year (2016: kEUR 54). Pension provisions for former Executive Board members of FRoSTA AG amounted to kEUR 390 on the balance sheet date (2016: kEUR 410).

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

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

The remuneration of the Supervisory Board amounted to kEUR 125 (2016: kEUR 125), of which kEUR 35 (2016: kEUR 111) was variable remuneration and kEUR 90 (2016: kEUR 14) was fixed remuneration.

REPORT ON POST-BALANCE SHEET EVENTS

No significant events having a material impact on the net assets, financial position and results of operations as at 31 December 2017 occurred after the balance sheet date.

OTHER (21)

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

APPROPRIATION OF PROFITS (22)

Based on 6,812,598 no-par value bearer shares, less 228 no-par value bearer treasury shares not entitled to a dividend in accordance with Section 71b of the German Stock Corporation Act (AktG), this results in 6,812,370 no-par value bearer shares entitled to a dividend. At the Annual General Meeting, we will be proposing a dividend payment of EUR 1.60 per share corresponding to a total dividend payment of EUR 10,899,792.00. This payment will be taken from the net income for the year as at 31 December 2017 of EUR 18,953,489.31. The remaining EUR 8,053,697.31 will be allocated to other capital reserves.

Bremerhaven, 9 March 2018

The Executive Board

Felix Ahlers | Maik Busse

Hinnerk Ehlers | Jürgen Marggraf

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

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

Bremerhaven, 9 March 2018

The Executive Board

Felix Ahlers
Maik Busse

Hinnerk Ehlers
Jürgen Marggraf

AUDITOR'S REPORT

We have audited the financial statements — comprising the balance sheet, income statement and the notes — including the accounting records and the combined management report for the Company and the Group prepared by FRoSTA Aktiengesellschaft, Bremerhaven, for the financial year from 1 January to 31 December 2017. The accounting records and the preparation of the financial statements and the combined management report of the Company and the Group in accordance with the requirements of German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements including the accounting records and on the combined management report for the Company and the Group based on our audit.

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

Our audit has not led to any reservations.

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

Bremen, 21 March 2018

BDO AG
Wirtschaftsprüfungsgesellschaft

Renken
German Public Auditor

Weichert
German Public Auditor

TEN-YEAR OVERVIEW FOR THE FRoSTA GROUP

Ten-year overview for the FRoSTA Group

		2017	2016	2015
Employees (average)	Number	1,709	1,665	1,631
Revenue	mEUR	501	466	440
EBITDA	mEUR	49.3	43.8	38.3
EBIT	mEUR	34.9	31.6	26.1
EBIT %		7.0%	6.8%	5.9%
Consolidated profit/loss	mEUR	23.4	21.6	18.2
Capital expenditure	mEUR	39.1	26.0	14.1
Shares	Number	6,812,598	6,812,598	6,812,598
Total dividend	kEUR	10,900	10,203	9,256
Dividend per share	EUR	1.60	1.50	1.36
Earnings per share	EUR	3.43	3.17	2.67
Non-current assets	mEUR	115.3	89.7	76.5
Current assets	mEUR	194.8	181.8	168.2
Equity	mEUR	161.9	145.7	134.7
Equity ratio		52.2%	53.7%	55.1%
Liabilities to banks	mEUR	44.6	27.6	33.2
Debt ratio[1]		14.4%	10.2%	13.6%
Return on investment (ROI)[2]		15.2%	16.0%	13.7%

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

2014	2013	2012	2011	2010	2009	2008
1,559	1,523	1,504	1,528	1,520	1,614	1,539
408	386	380	385	393	411	392
36.2	29.5	21.5	26.0	29.8	32.5	32.0
24.8	18.2	10.3	14.9	17.7	20.9	20.8
6.1%	4.7%	2.7%	3.9%	4.5%	5.1%	5.3%
17.3	12.0	6.1	8.7	9.8	12.0	12.1
16.3	8.4	7.8	8.6	10.7	12.1	25.7
6,812,598	6,812,598	6,695,900	6,609,188	6,531,457	6,450,833	6,413,386
9,247	6,813	5,022	4,957	4,899	4,838	4,810
1.36	1.00	0.75	0.75	0.75	0.75	0.75
2.53	1.80	0.92	1.33	1.52	1.87	1.89
75.4	71.1	75.1	76.8	81.5	82.9	88.4
159.7	150.9	147.2	144.8	144.0	140.2	148.9
125.7	116.6	108.4	105.0	101.2	94.8	87.0
53.5%	52.5%	48.7%	47.4%	44.9%	42.5%	36.6%
29.4	39.1	50.0	55.3	63.6	76.7	86.3
12.5%	17.6%	22.5%	25.0%	28.2%	34.4%	36.4%
13.8%	10.5%	5.7%	8.3%	10.6%	11.3%	12.1%

REPORT OF THE SUPERVISORY BOARD FOR THE 2017 FINANCIAL YEAR

Dear Shareholders,

In the financial year 2017, the Supervisory Board of FRoSTA AG discharged the duties incumbent upon it under the law and the Company's Articles of Association and Rules of Procedure. During the same period, it was regularly and extensively involved in matters concerning the Company's economic and financial development as well as its strategic alignment. It held regular consultations with the Executive Board and monitored the latter's activities closely. The Supervisory Board participated directly in all decisions of fundamental importance to the Company. The Executive Board informed the Supervisory Board regularly, comprehensively and in a timely manner, in written form and verbally, on all matters concerning the business development and the financial situation of the Group. The Chairman of the Supervisory Board, Dirk Ahlers, exchanged information at regular intervals with the Executive Board, for example by attendance at a number of Group management meetings during the course of the year.

After thorough examination, the Supervisory Board approved those decisions of the Executive Board which require Supervisory Board consent. These mainly concerned corporate planning for the year, the annual scope of capital expenditure and financial planning. Of particular significance in 2017 was the purchase of the "La Valle degli Orti", "Mare fresco" and "Surgela" retail business in Italy from Nestlé Italiana S.p.A.

The Supervisory Board convened four regular meetings: on 22 March 2017, 23 June 2017, 28 September 2017 and 20 December 2017. All of the members participated in the Supervisory Board meetings. Mr Barckhahn was unable to attend the meeting of 28 September in person and was linked in via telephone.

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

MAIN POINTS DISCUSSED BY THE SUPERVISORY BOARD

During the 2017 financial year, the Supervisory Board devoted its efforts to implementing key annual planning objectives:

FOR THE GROUP AS A WHOLE

- Growth through innovation
- Above-average growth of the FRoSTA brand and Foodservice (catering)
- Increased return on sales
- Reducing the working capital

FOR THE FRoSTA BRAND

- Intensification of listing efforts especially for the fish range in Germany
- Standardisation of the brand identity under the FRoSTA Purity Command in all sales countries
- Focus on Germany, Poland, Hungary, the Czech Republic and Romania by supporting the brand through consumer advertising in these countries
- Introduction of the brand in Italy in connection with the purchase of the brand business in Italy from Nestlé Italiana S.p.A., comprising the "La Valle degli Orti", "Mare fresco" and "Surgela" brands

FOR THE FOODSERVICE (CATERING) BUSINESS

- Growth and expansion of business in other European countries

FOR THE PRIVATE LABEL BUSINESS

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

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

ON 22 MARCH 2017

- Audit of the 2016 annual financial statements
- Long-term strategic alignment of FRoSTA AG
- Preparation of the purchase of the "La Valle degli Orti", "Mare fresco" and "Surgela" brand business for the Italian market from Nestlé Italiana S.p.A.
- Possibilities to reduce the working capital

ON 23 JUNE 2017

- Preparation of the Annual General Meeting
- Industry 4.0
- Confirmation of the acquisition of the "La Valle degli Orti", "Mare fresco" and "Surgela" retail business in Italy from Nestlé Italiana S.p.A.
- Bonus targets for the Executive Board

ON 28 SEPTEMBER 2017

- Profit estimate for the financial year 2017
- Report of the Executive Board on the introduction of the brand in additional markets
- Report of the Executive Board on the development of working capital

ON 20 DECEMBER 2017

- Annual planning for 2018
- IT strategy / Industry 4.0

FINANCE AND PERSONNEL COMMITTEE

The Finance and Personnel Committee, consisting of Supervisory Board members Dirk Ahlers and Oswald Barckhahn, met before each Supervisory Board meeting and made preparations for these meetings. The Committee consulted with the Supervisory Board on the 2016 annual financial statements at a joint session in Hamburg on 22 March 2017.

COMPOSITION OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

The composition of the Executive Board and the Supervisory Board remained unchanged in the financial year 2017.

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit reports were submitted to the members of the Supervisory Board in good time. They were presented by the auditor to the Supervisory Board on 14 March 2018, which duly examined them. On 21 March 2018, they were again thoroughly reviewed and discussed in detail by the Supervisory Board. For its part, the Supervisory Board thoroughly reviewed the separate financial statements, the consolidated financial statements, the combined management report of FRoSTA AG and the Group, as well as the proposal on the appropriation of net retained profits on its own responsibility. The Supervisory Board declares that, having completed its review, it has no objections either to the consolidated and separate financial statements as at 31 December 2017, nor to the combined management report of FRoSTA AG and the Group as at 31 December 2017. The Supervisory Board therefore unanimously approved the separate and consolidated financial statements prepared by the Executive Board. The annual financial statements were thereby adopted.

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

In relation to the remuneration of the Executive Board, the Supervisory Board notes the following: The fixed remuneration increased by 11.1% in 2017 compared with the previous year. This is due entirely to the fact that the position of Vice President Finance and Controlling was again filled year-round. Compared to other companies of a similar size, fixed remuneration comes in at the lower end. The variable, i.e. performance-related remuneration continues to be considerably higher than average. However, despite improved earnings, the variable component decreased by 0.1% year-on-year. When comparing with other companies, it should also be borne in mind that the Executive Board remuneration does not include any pension commitments.

In total, the Executive Board remuneration increased overall by 1.6% compared with 2016.

The Supervisory Board deems the level of Executive Board remuneration appropriate.

WORD OF THANKS

The Supervisory Board would like to express its thanks to the Executive Board and to all employees for their great commitment in the financial year 2017.

Bremerhaven, 21 March 2018

For the Supervisory Board

Dirk Ahlers

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