



FROSTA AG

ANNUAL REPORT 2006

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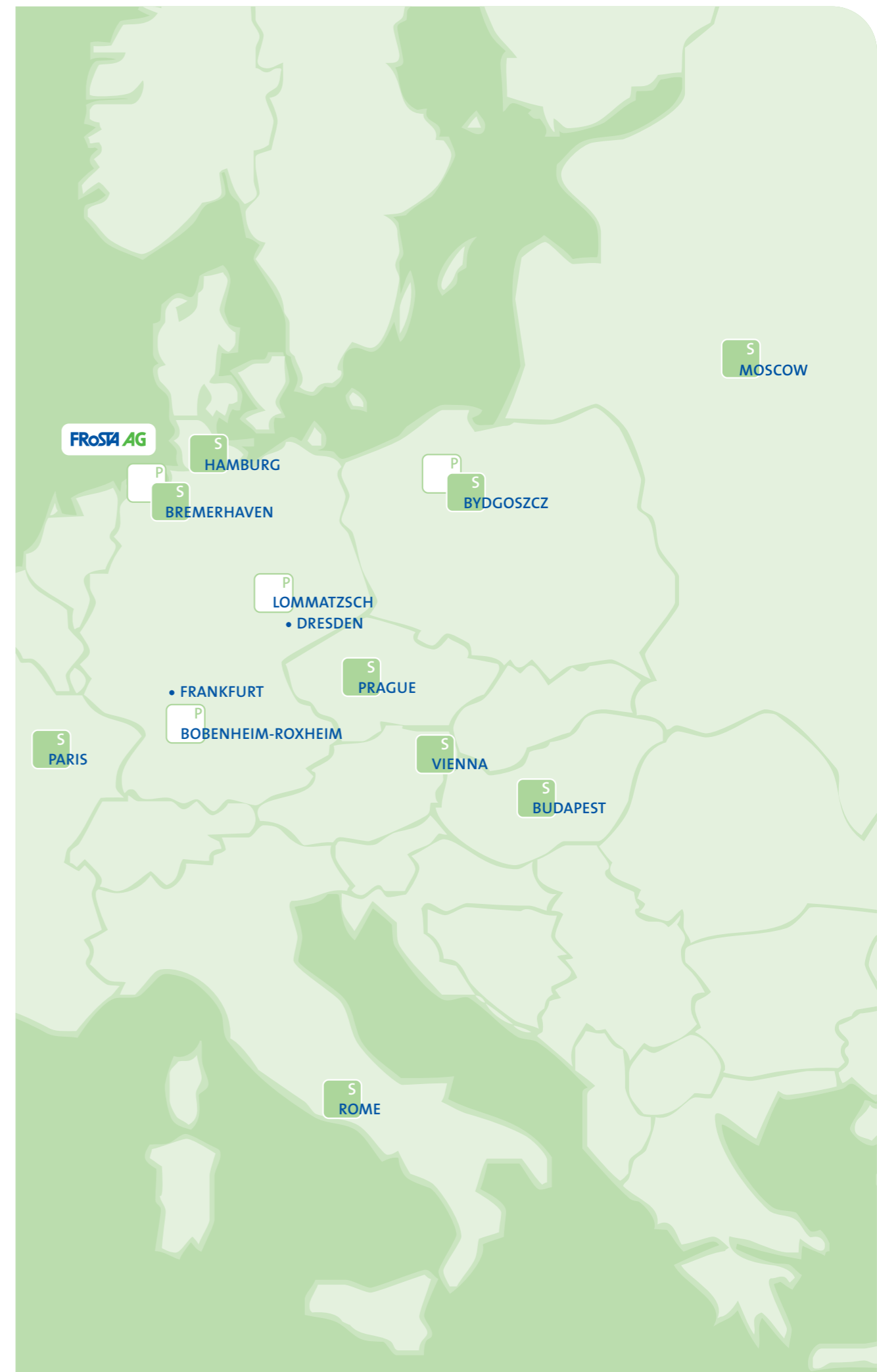
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ANNUAL REPORT 2006

FINANCIAL YEAR		2005	2006
Employees (average)	number	1,167	1,248
Turnover	mill. €	269	307
EBITDA ¹ in % of turnover	mill. €	26.1 9.7 %	27.4 8.9 %
EBIT ² in % of turnover	mill. €	15.2 5.7 %	16.6 5.4 %
Result from business activities	mill. €	13.5	14.6
Group result for the year	mill. €	8.4	10.4
Cashflow	mill. €	17.8	17.6
Investments	mill. €	6.1	7.7
Dividend per share	€	0.50	0.60

¹ Earnings before interest, tax and depreciation

² Earnings before interest and tax



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LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

last year we were able to accelerate the growth of our company considerably. For the first time, turnover exceeded the 300 million Euro mark, and we finished the year at 307 million Euro, the highest result since FRoSTA AG was founded. At 14.6 million Euro, pre-tax earnings may have grown at a slower rate, but they were still much higher than in the previous year, and in fact amounted to the best result since 1993! This was achieved in spite of severe pressure on the gross profit margin – at 39.2 % the lowest since 1998.

This positive result has been realised because, together with our complete workforce, we have succeeded in meeting the necessary requirements for the continuous improvement of a successful food manufacturer. These include the development, production and marketing of a variety of attractive, high-quality articles at affordable prices for the consumer.

Once again, we were greatly assisted in this endeavour by the "FRoSTA Purity Command", which we introduced in 2003. This is a concept which is more and more in tune with consumer expectations and its success has been accompanied by growing demand from retailers as well as the appearance of the first imitators. We take this as a compliment and an acknowledgement of the approach we have adopted.

We want our shareholders to benefit from this success, too, and so we are proposing a dividend increase from € 0.50 to € 0.60 per share for the financial year just ended.

I would like to express my gratitude first of all to the consumers, and then to our trade partners, without whose efforts our products would never reach the final user, and then, of course, to all our staff. I am sure I can also offer these thanks on behalf of you and all our company shareholders!

Yours



Dirk Ahlers

MANAGEMENT REPORT

FROSTA

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I. GENERAL CONDITIONS AND DEVELOPMENTS IN THE INDUSTRY

1. General economic climate

In 2006, the global economy grew by 4 %. The German economy also experienced a period of increased expansion in relation to previous years, with a growth rate of 2.7 % in 2006, a significant increase on the 0.9 % achieved a year earlier (Source: F.A.Z.).

Consumer spending, however, has not seen a marked increase. Retail turnover increased nominally by only 0.8 % (in reality by 0.1 %) in relation to 2005. Sales of food including beverages and tobacco products climbed nominally by only 0.3 %, but in reality dropped by 1.6 % (Source: Statistisches Bundesamt).

In spite of domestic stagnation, the German food industry saw a positive development, with nominal growth reaching 3.7 %, mostly through exports within the European Union and to Eastern Europe (Source: Deutsches Tiefkühlinstitut).

The economies of the new EU member states in Poland, Hungary, Czech Republic, Slovakia and Slovenia also experienced stronger growth in 2006 than the rest of Europe. Average growth in these countries was more than 5 %, whereas the major Western European countries only saw growth of less than 2 %. At the end of 2006, the EU finally decided to welcome Romania and Bulgaria as the final new members for the time being. These two countries had growth rates of more than 6 % (Source: Deutsche Bank Research).

2. Development of the frozen food market

Sales of frozen food in the German retail industry clearly outperformed other types of food and achieved a growth rate of 5.1 %. All of FRoSTA AG's key sectors were able to benefit from this development.

Frozen fish	+ 12.9 %
Frozen fruit	+ 6.0 %
Frozen vegetables	+ 4.3 %
Frozen ready meals	+ 3.3 %

These segments make up about 43 % of the total frozen food market.

At an average of 9.5 %, it was in the discount supermarkets where the strongest growth was recorded (Source: A.C. Nielsen Market Track).

Sales of frozen food developed at different rates in the other major European countries. In the United Kingdom, the largest frozen food market, there was only a small increase, albeit with a slightly positive trend. France and Italy also saw low growth rates, whereas in the Netherlands, Belgium and Spain there was an above average increase in the consumption of frozen food.

The greatest growth in frozen food could be observed in the European neighbour states, especially in Poland, Hungary and the Czech Republic. Exact figures are not yet available, but we estimate growth here of between 8 and 10 % in 2006. This trend could be sustained for quite some time.

II. Company situation

In 2006, FRoSTA AG Group turnover increased by 14 %, from € 269 million to € 307 million. And so we were able to return to the path of growth of previous years after a period of stagnation and consolidation which had lasted since 1992.

However, due to continuing margin pressure, the Group result does not reflect exactly this increase in turnover, although we were able to continue the positive trend we have been enjoying since 2004. Our pre-tax earnings in 2006 amounted to € 14.6 million, 8 % higher than the € 13.5 million of 2005 (2004: € 12.9 million). At € 10.4 million, earnings after tax are up by 24 % on the € 8.4 million of 2005 (2004: € 7.8 million). All in all, and in view of the difficult market situation, we are generally satisfied with this result.

Details of the different business developments are given below:

1. Turnover and volume

Sales of FRoSTA brand products, mostly in Germany, Poland and Hungary, increased by 15 %, significantly higher than the market as a whole. Most growth was achieved through FRoSTA products in Germany as well as in Poland. The highest growth rates were recorded in the rest of Eastern Europe. Brand turnover now amounts to a total of € 46 million.

Turnover of our secondary brands ELBTAL and TIKO grew to € 24 million.

Private label business increased by 18.5 % to € 179 million from € 151 million in the previous year.

The catering, home delivery and industrial segments saw only a slight increase in sales, from € 57 million to € 58 million.

Within the product groups, fish enjoyed the strongest growth at 19 %, much more dynamic than the market as a whole. This was followed by ready meals at 10 %, and vegetables at 9 %. Sales of fruit products remained at last year's level and were unable to benefit from the general market growth.

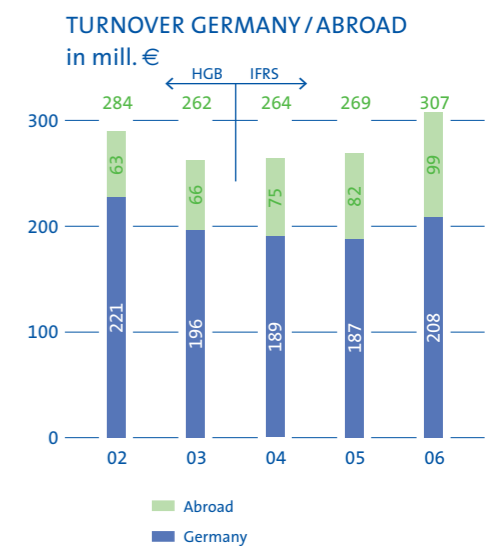
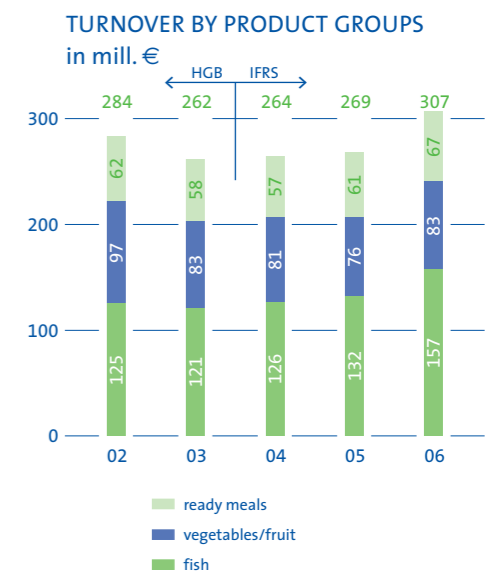
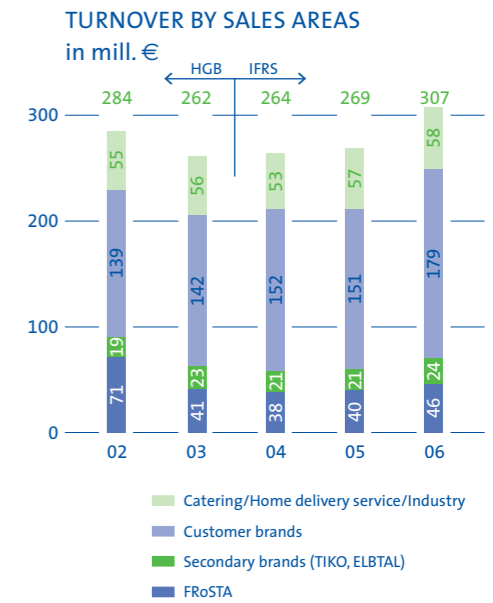
The breakdown of turnover according to markets shows that, at 21 %, the strongest growth was again achieved outside Germany. In Germany, strong growth in the food retail industry as a whole was balanced by more modest growth in the other segments. Growth outside Germany is accounted for by increased sales of FRoSTA brand products in Poland and the other Eastern European countries as well as by the continuing positive turnover development in discount supermarkets abroad.

2. Marketing and sales

2.1 FRoSTA brand

In 2006, turnover in FRoSTA brand products throughout Europe increased by 15 %.

In Germany, the FRoSTA brand was one of the winners in the frozen food market. The development was especially pleasing in ready meals. In the last quarter of 2006, ex-factory sales of complete meals rose by 23 % as against the previous year and the brand could reinforce its position as market leader. For the first time, market shares in this segment are well over 20 % (Source: Nielsen Market Track Germany, excluding Aldi).



In the frozen ready meals sector, FRoSTA was the best in class, with seven branded products in the top-ten acceptance list compiled by Nielsen. The top four places all go to FRoSTA products – "Bami Goreng", "Nasi Goreng", "Paella" and "Hähnchen Curry". This is a clear indication that additive-free food is an ever more important criterion for consumers and that FRoSTA is gaining ever more ground through the continued implementation of its Purity Command. Several TV programmes have reported in detail about FRoSTA and its products.

With the support of an extensive advertising campaign on all relevant TV channels, the introduction of the FRoSTA "Gourmet Mahlzeiten" at the end of 2006 has enjoyed particular success. The commercial shows TV favourite "Peter von Frosta" in the familiar split screen format as he demonstrates in an entertaining manner how quickly and easily the "Gourmet Mahlzeiten" can be prepared in the microwave. Microwaving in the steam-bag is a much gentler way of cooking. The FRoSTA Purity Command, by which FRoSTA still pioneers the rigorous exclusion of flavour enhancers, aromas, artificial colouring, stabilisers and emulsifiers as well as chemically modified starch, ensures that these products are also tasty and sophisticated. The classic FRoSTA bag products will be advertised intensively in 2007, too.

The FRoSTA brand has also seen a very positive development in Poland, Hungary, the Czech Republic and Russia. In Poland we were able to further reinforce our position as market leaders in fish products. In 2006, we conducted a high-powered advertising campaign in Poland for FRoSTA products while in Hungary we launched our first advertising campaign. Following the EU membership of Romania and Bulgaria, we now intend to gain a footing for FRoSTA products in these countries.

2.2 „FRoSTA-Copack“

In the financial year 2006, our private labels and secondary brands (ELBTAL und TIKO) saw a continuation of the trend towards promotion products and other new lines. Due to further increases in the price of raw materials, especially fish, we were forced to raise our prices in the second half of 2006. Overall growth was well into double-digits, but we witnessed once again continued severe pressure on profit margins.

In the catering segment – hotels, restaurants and canteens – the whole frozen food market enjoyed only minimal growth. The "FRoSTA-GV Partner" business developed in line with this trend. Turnover was slightly down although the profit margin in this segment could be maintained at a constant high level as a result of price increases and a focus on our more profitable products.

3. Situation concerning assets, finance and earnings

Since 2005, the consolidated balance sheet and the consolidated profit and loss account have been compiled as legally required in accordance with the International Financial Reporting Standards IFRSs. To improve comparability, we also drew up the consolidated balance sheet and profit and loss account for 2004 according to IFRS standards. Data relating to figures before 2004 was prepared in accordance with the HGB (German Commercial Code) and therefore cannot always be compared with figures relating to the years after 2004.

The group profit before tax amounting to € 13.5 million realised in 2005 was improved in 2006, with pre-tax group profits rising to € 14.6 million. As a percentage, however, this rise of 8 % could not match the 14 % increase in turnover achieved compared to the year before. This is due mainly to a deterioration in the gross margins of our products. This development can be accounted for in detail by the following factors:

- Almost all distribution sectors saw a marked increase in sales and turnover above the market average. Growth rates were particularly pleasing for the FRoSTA brand and in Eastern Europe as well as in the hard discount segment.
- Due to increased prices for raw materials, especially white fish, in the first half of 2006, and the poor harvest of fruit and vegetables in summer, there was a clear drop in the gross margins for our products. These price increases could be partly compensated for by currency fluctuations. But the higher prices we were able to implement, sometimes after a considerable delay, were not enough to cancel out the higher costs for raw material.

The result before interest, tax and depreciation (EBITDA) was € 27.4 million, an increase on the previous year's result of € 26.1 million. Earnings before interest and tax (EBIT) climbed from € 15.2 million in 2005 to € 16.6 million.

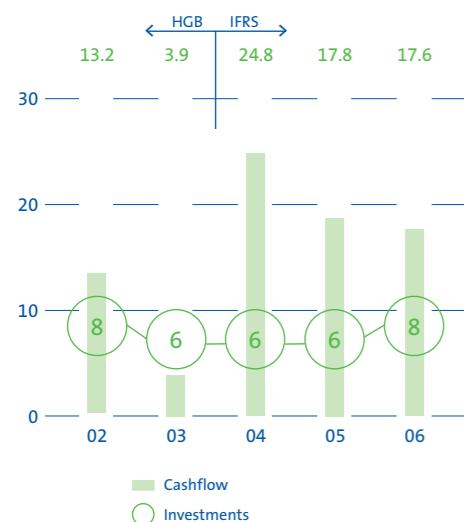
The group result after tax was € 10.4 million, up from € 8.4 million a year earlier. This disproportionately high level of after-tax earnings is a result of changes in § 37 of German corporation tax legislation, which allows us to distribute corporation tax credits in equal instalments over the next ten years. The activated discounted credit of € 0.9 million has thus reduced our tax burden and so accounts for the disproportionately high increase in earnings after tax.

The equity capital reported in the FRoSTA AG Group balance sheet is comprised as follows, in each case as per December 31:

in thousand € (TEUR)	31.12.2005	31.12.2006
Equity capital	16,137	16,226
+ Capital reserves	7,606	7,909
+ Revenue reserves	31,825	37,224
+ Loss and balancing items	94	146
+ Net result	7,076	8,894
Equity capital	62,738	70,399
Balance sheet total	164,619	173,989
Equity ratio	38.1 %	40.5 %

in mill. €	HGB		IFRS		
	2002	2003	2004	2005	2006
Turnover	284.0	262.4	264.1	268.6	307.3
EBITDA (earnings before interest, tax and depreciation)	18.7	5.7	25.8	26.1	27.4
in % of turnover	6.6 %	2.2 %	9.8 %	9.7 %	8.9 %
- Depreciation	10.8	10.7	10.4	10.9	10.8
= EBIT (earnings before tax and interest)	7.9	-5.0	15.4	15.2	16.6
in % of turnover	2.8 %	-1.9 %	5.8 %	5.7 %	5.4 %
+ Financial result	-3.1	-2.7	-2.5	-1.7	-2.0
Result from business activities	4.8	-7.7	12.9	13.5	14.6
in % of turnover	1.7 %	-2.9 %	4.9 %	5.0 %	4.8 %
- Taxes	-2.5	-0.0	-5.1	-5.1	-4.2
Consolidated result for the year	2.3	-7.7	7.8	8.4	10.4
in % of turnover	0.8 %	-2.9 %	2.9 %	3.1 %	3.4 %

CASH FLOW BEFORE CHANGE WORKING CAPITAL in mill. €



At € 7.7 million, investments were higher than in 2005, but still lower than depreciation and amortisation. They were financed entirely from the cash flow before change in the working capital amounting to € 17.6 million (previous year € 17.8 million).

The remainder of the cash flow before change in the working capital was used to finance at least partially the increase in short-term assets. The remaining increase in these assets was financed through additional bank liabilities (including leasing arrangements with Siemens), from € 49.1 million as per December 31, 2005 to € 51.8 million at the end of 2006. Despite an increase in current assets, we were able to raise our equity ratio to 40.5 % as compared to 38.1 % the year before. In order to remain economically independent, our long-term goal is to maintain this equity ratio.

At € 174 million, our balance sheet total is 5.5 % above the previous year's figure of € 165 million. This change is accounted for by the fact that parallel with a 14.4 % rise in turnover, assets and receivables also increased by a total of 13.5 %. Noteworthy here is that stocks were actually down on the previous year's levels, but due to price increases the value of our raw material stocks actually increased considerably. Some of the receivables will be re-financed as part of an ABS programme. As a result of reduced investment, capital assets dropped from € 70 million in 2005 to € 67 million in 2006.

In addition to the 11 % increase in equity capital from € 63 million to € 70 million, the balance sheet total was financed by higher liabilities, with bank liabilities climbing from € 49 million as per December 31, 2005 to € 52 million at the end of 2006.

4. Individual financial statement of FRoSTA AG

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

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

The individual financial statement for 2006 shows a marked increase in turnover compared to the previous year, as in the group as a whole. Here sales in all segments played a major role in this growth.

The individual financial statement, balanced in accordance with HGB, shows a profit after taxes of € 11 million. The previous year's figure amounted to € 8.6 million. This disproportionately high increase in the after-tax result can be explained by changes in § 37 of German corporation tax legislation, which allows corporation tax credits to be activated and their proceeds distributed over a period of ten years as of 2008. In the individual financial statement of FRoSTA AG, this change accounts for a difference of € 1.8 million. This is offset, however, by expenditure amounting to € 0.9 million in the remaining 11 years for deduction of interest, which results in increased interest expenditure in the individual financial statement.

GROUP BALANCE SHEET STRUCTURE in mill. €



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

	TEUR
FRoSTA AG ANNUAL NET PROFIT FOR 2006 (HGB)	11,036
Changes IFRSs:	
Depreciation	-3,268
Deferred taxes	1,223
Group receivables	145
Inventories	282
Transfer of pensions rights	305
Miscellaneous	-374
FRoSTA AG annual net profit for 2006 (IFRSs)	9,349
Total result for the year for subsidiaries consolidated in the Group financial statements	1,257
Consolidating entries: Effects of the consolidating entries affecting the operating result	-239
Consolidated annual net profit FRoSTA 2006	10,367

The increased depreciation figures result from the fixed assets re-assessed in accordance with the IFRSs and the different depreciation methods and useful lives. The deferred taxes chiefly result from the different depreciation methods of the two accounting standards.

The equity ratio amounts to 36 % (33 % in the previous year). The difference to the Group balance sheet with an equity ratio of 41 % at the end of 2006 is mainly accounted for by the re-assessment of capital assets required by IFRS and the resulting raising of equity capital in the consolidated financial statement.

There is also a parallel development in the balance sheet totals of the individual and consolidated financial statements, and the increase in current assets is the reason for the higher balance sheet total.

The individual financial statement according to HGB is still the basis for determining what dividend is to be paid. At the Annual General Meeting we will propose a dividend of € 0.60 per share. This corresponds to a total dividend payment of € 3,803,033.40. We will recommend depositing the remaining profits in the other revenue reserves.

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

5. The FRoSTA share

In the course of 2006, the FRoSTA share price enjoyed a very positive development and climbed by 23.5 % from € 12.80 in January 2006 to € 15.81 on December 31, 2006.

KEY FIGURES FOR THE FRoSTA SHARE	2005	2006
Number of shares	6,303,316	6,338,389
Equity capital on consolidated balance sheet (TEUR)	62,738	70,399
Equity capital per share (€)	9.95	11.11
Market price at year end (€)	12.80	15.81
Year high (€)	14.55	16.90
Year low (€)	8.50	12.10
Sales per share	1,206,326	818,397
KGV (Price at year end/profit for the year)	9.59	9.67
Dividend payout per share (€)	0.50	0.60
Dividend yield	5.0 %	5.4 %
Group annual result (TEUR)	8,410	10,367
Annual result per share (€)	1.33	1.64
Group cash flow before change of working capital (TEUR)	17,793	17,592
Cash flow before change of working capital / share (€)	2.82	2.78

On December 31, 2006, the total subscribed capital of FRoSTA AG amounted to € 16,226,275.84, which is the equivalent of 6,338,389 shares at € 2.56. Of these, according to their own statement, 2,245,076 are held by Mr. D. Ahlers. This corresponds to a total shareholding of 35.4 %. Mr. F. Ahlers owns 1,447,710 shares or 22.8 %, while Ms F. Ahlers holds 1,427,650 shares, the equivalent of 22.5 %.

According to a resolution passed by the Annual General Meeting on June 15, 2006, the Board is entitled to acquire up to 10% of all shares. This resolution is valid for a period of 18 months.

6. R&D report

In 2006, new product lines were successfully developed and launched in the brand and private label segments. As well as purely sensory developments, we also worked on packaging features, with a special focus on menu trays in a variety of designs. The demand for innovative products in line with consumer trends is growing continuously and calls increasingly for rapid product developments with a high level of innovation. In 2006 we were able to meet these challenges successfully.

7. Procurement

The first half of 2006 saw further price increases in the purchasing of fish raw material as well as in the poultry sector as a result of the avian flu scare. The heavy demand for fish products has partly led to a scarcity in raw material supply. This, however, did not cause supply shortages in our company. An additional challenge for sourcing was the expansion of our organic range. Not all raw materials can be produced by our own facilities and this means that additional buying activities worldwide were necessary. In this sector, quality and price could also be secured by global sourcing.

8. Production

Our fish and ready meals producing facilities in Bremerhaven and Bydgoszcz/Poland distinguished themselves in 2006 by greatly increased production volumes (in some parts more than 10 %). We were faced with a very difficult situation in production at our subsidiaries in Lommatzsch (Elbtal Tiefkühlkost) and Bobenheim-Roxheim (Rheintal Tiefkühlkost), where inclement weather affected the harvests. For some vegetable types, yield was down by up to 30 % on the previous year.

All in all, we were able to maintain 99 % of total supply required.

9. Investments

In 2006 we implemented further streamlining projects and replacement investment. We also upgraded our bagging lines to meet the market's packaging demands. The total investment amounted to € 7.7 million.

10. Organisation, administration and company structure

The organisation developed in the previous years was maintained and was expanded in specific areas. There were, however, no major changes.

The Supervisory Board appoints the members of the Executive Board and determines their number. The Supervisory Board may delegate the completion, alteration or termination of employment contracts to a Supervisory Board committee.

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

The members of the Executive Board receive remuneration that comprises:

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

Year	Basic-remuneration (TEUR)	Remuneration for Share purchase (TEUR)	Variable remuneration (TEUR)	Total
2005	760	87	1,006	1,853
2006	809	129	1,084	2,022

The total remuneration of former members of the Executive Board at FRoSTA AG and in the Group amounted to TEUR 65 in the business year (2005 TEUR 64).

The members of the Supervisory Board receive remuneration that comprises:

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

Jahr	Basic-remuneration (TEUR)	Success-related bonus (TEUR)	Total
2005	18	5	23
2006	14	27	41

11. Employees

The number of employees rose on annual average by 81 to 1,248. This increase is mainly due to higher numbers of wage-earners in Poland. As a result of the positive development in sales there, we were able to employ extra staff. In Germany, the workforce has, for the most part, remained unchanged.

EMPLOYEES	2005	2006
FROSTA head office	188	194
- thereof administration	158	158
- thereof sales (incl. foreign countries)	30	36
PRODUCTION SITES	979	1,054
- Schottke, Bremerhaven	510	518
- Rheintal, Bobenheim-Roxheim	133	137
- ELBTAL, Lommatzsch	130	133
- Bydgoszcz, Polen	206	266
GROUP TOTAL	1,167	1,248

Total expenditure on personnel (not including severance payments) rose due to an increase in the standard wages, the higher number of personnel and the profit-sharing payments by 5.9 % to € 46.5 million, as compared with the previous year. The number of apprentices rose from last year's 30 to 32. In 2006, staff fluctuation was again very low at 2.9 %. In Germany, absence through illness was also low at 3.4 %.

As in the years before, in 2006 we again offered our employees the opportunity to share in the ownership of FROSTA AG by purchasing employee shares at a reduced price. The number of shares purchased rose to 35,073 (25,351 the previous year). A total of 135 buyers took part in the campaign (previous year 124). We are satisfied with our employees' involvement in this scheme and pleased with the trust demonstrated. We hope that even more FROSTA employees will become shareholders in future.

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

III. Risk report

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

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

The FROSTA AG risk management system undergoes a continual improvement process. During 2006 a management workshop was held to review and assess all major Company risks. The risk management system is part of the audit of the annual financial statements for 2006.

The production of frozen food involves the use of a wide range of raw materials, the procurement of which can be subject to considerable fluctuation. By co-operating with strategic suppliers, we level out these fluctuations and avoid becoming dependent. Being located in various different places our own vegetable production is also largely secured against the effects of inclement local weather conditions, which can lead to poor harvests. Despite all this, considerable changes in the prices of raw materials are still possible and, because of the competitive environment, these can not always be passed on immediately to the customers.

The quality of the raw materials is monitored by audits at our suppliers' facilities and by checking goods as they arrive at our factories.

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

The increasing concentration of trade is leading to risks arising from the potential loss of bulk contracts. This can mean our fixed costs are not covered. Our broad customer structure is based on our own and customers' brands, as well as the supplying of home delivery services, caterers and industrial customers and this secures us against excessive fluctuations in sub-sections of the market. The risk of losing outstanding receivables is limited by credit risk insurances with the usual deductibles, a rigorous reminder system and internal credit limits.

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

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

There are no significant risks from pending legal disputes. A commercial audit for the years 2000 – 2004 was started in 2006.

The growing market in Germany, Western Europe and especially Eastern Europe presents FROSTA AG with great opportunities. Low per capita consumption in these countries combined with FROSTA's strong position means that there is an extraordinary potential for growth here.

IV. Events after the end of the financial year

The volumes sold in the first two months of 2007 were slightly above our expectations. However, raw material prices, especially for vegetables, have continued to increase. These have not yet been reflected appropriately in our sales prices and for this reason we are not yet satisfied with the results of the first few weeks.

Due to poor harvests last year, we must expect supply shortages for some vegetable products until the next harvest.

In order to realise the necessary capacity expansion in the fish segment, we have started on the extension of our plant in Bydgoszcz and expect to complete the construction work by the end of the year.

Outlook

For the current financial year we expect that our volume and turnover will continue to increase.

Difficult circumstances in sourcing and sales still result in profit margins which will probably be lower than those of 2005.

Our major objective will therefore continue to be to improve our margin to the level achieved in 2005 by enforcing the vital price increases. This also includes increasing productivity in the factories, being more aware of costs as well as closely co-operating with our suppliers in order to keep price increases in raw materials at a minimum.

As in previous years, we cannot forecast results at this stage. We do aim, however, for a result slightly better than last year's.

Bremerhaven, March 29, 2007

The Executive Board

CONSOLIDATED
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	Note item	2006 TEUR	2005 TEUR
1. Turnover	(40)	307,331	268,635
2. Increase in inventories of finished and unfinished goods		1,917	1,604
3. Own work capitalised		43	34
4. Other operating income	(41)	4,428	4,923
5. OPERATING INCOME		313,719	275,196
6. Cost of materials			
a) Raw materials, consumables and goods purchased for resale		-185,493	-156,187
b) Purchased services		-7,798	-6,522
		-193,291	-162,709
7. GROSS PROFIT		120,428	112,487
8. Personnel expenses	(42)		
a) Wages and salaries		-39,055	-37,287
b) Social security and other pension costs and for support thereof for pensions TEUR 610 (2005: TEUR 154)		-7,695	-6,985
		-46,750	-44,272
9. Depreciation/amortisation of intangible and tangible fixed assets and activated expenses for the initiation and expansion of the business operations	(43)	-10,790	-10,857
10. Other operating expenses	(44)	-46,244	-42,119
11. OPERATING RESULT		16,644	15,239
12. Income from participating interests		35	10
13. Other interest and similar income		89	61
14. Interest and similar expenses		-2,193	-1,819
15. Financial result		-2,069	-1,748
16. RESULT FROM BUSINESS ACTIVITIES	(45)	14,575	13,491
17. Current taxes on income and earnings	(46)	-5,437	-5,123
18. Deferred taxes	(46)	1,229	42
19. CONSOLIDATED PROFIT FOR THE YEAR		10,367	8,410
Earnings per share			
– undiluted (EUR)		1.64	1.33
– diluted (EUR)		1.64	1.33

ASSETS

	Notes item	31.12.2006 TEUR	31.12.2005 TEUR
NON-CURRENT ASSETS			
A. FIXED ASSETS			
1. Intangible assets	(24)	3,691	4,954
2. Tangible assets	(25)	61,933	63,709
3. Financial assets	(26)	108	108
		65,732	68,771
B. DEFERRED TAXES			
	(47)	1,002	878
		66,734	69,649
CURRENT ASSETS			
1. Inventories	(27)	49,026	43,260
2. Trade receivables	(28)	51,913	45,704
3. Receivables from associated companies		0	2
4. Receivables from current taxes on earnings and income		2,023	1,263
5. Other current assets	(29)		
Financial assets		3,062	3,905
Other assets		258	359
6. Financial capital		973	477
		107,255	94,970
BALANCE SHEET TOTAL		173,989	164,619

LIABILITIES

	Anhang Tz.	31.12.2006 TEUR	31.12.2005 TEUR
A. EQUITY CAPITAL			
	(30)		
1. Subscribed capital	(31)	16,226	16,137
2. Capital reserves	(32)	7,909	7,606
3. Revenue reserves	(33)	37,224	31,825
4. Adjustment resulting from currency conversion	(34)	146	94
5. Group equity capital generated (without revenue reserves)		8,894	7,076
		70,399	62,738
B. NON-CURRENT PROVISIONS AND LIABILITIES			
1. Pension provisions	(36)	1,149	2,640
2. Other provisions	(37)	1,357	1,248
3. Bank loans and overdrafts	(38)	8,844	10,961
4. Other liabilities	(38), (54)	0	2,249
5. Deferred taxes	(47)	8,604	9,709
		19,954	26,807
C. CURRENT PROVISIONS AND LIABILITIES			
1. Other current provisions	(37)	265	324
2. Bank loans and overdrafts	(38)	40,672	33,487
3. Trade payables	(38)	28,217	26,949
4. Liabilities to associated companies		32	32
5. Liabilities from current taxes on earnings and income		2,922	3,227
6. Other liabilities	(39)		
Financial liabilities		4,183	4,078
Other liabilities		7,345	6,977
		83,636	75,074
BALANCE SHEET TOTAL		173,989	164,619

	Subscribed capital	Capital reserve	Revenue reserves	Balancing items from currency conversion	Group equity capital generated (without revenue reserves)	Equity capital
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
As per January 1, 2005	16,049	7,403	24,010	-97	7,760	55,125
Dividends paid					-1,256	-1,256
Share issue	65	121				186
Additional expenditure due to issue of employee shares		82				82
Transfer to revenue reserves			7,838		-7,838	0
Currency change				191		191
Increase of capital from company funds	23		-23			0
Consolidated profit for the year					8,410	8,410
As per December 31, 2005	16,137	7,606	31,825	94	7,076	62,738
Dividends paid					-3,152	-3,152
Share issue	89	184				273
Additional expenditure due to issue of employee shares		119				119
Transfer to revenue reserves			5,399		-5,399	0
Currency change				52		52
Consolidated profit for the year					10,369	10,369
As per December 31, 2006	16,226	7,909	37,224	146	8,894	70,399

	2006 TEUR	2005 TEUR
Consolidated profit for the year before taxes on income	14,577	13,491
Depreciation and amortisation of fixed assets	+10,790	+10,739
Income from interest	-89	-61
Interest expenses	+2,193	+1,834
Increase/decrease in non-current provisions	-1,382	+171
Result of the disposal of non-current fixed assets	-19	+19
Non-cash income and expense	+156	+43
Interest paid	-2,164	-1,706
Interest received	+31	+36
Taxes on income paid	-6,665	-6,793
Taxes on income received	+164	+20
CASH FLOW BEFORE CHANGE IN WORKING CAPITAL	+17,592	+17,793
Decrease in current provisions	-59	-658
Increase/decrease in inventories, trade receivables and other assets that cannot be classified as investing or financing activities	-10,974	-32,696
Increase/decrease in inventories, trade payables and other liabilities that cannot be classified as investing or financing activities	+1,856	+6,996
CASH FLOW FROM OPERATING ACTIVITIES	+8,415	-8,565
Proceeds from disposals of fixed assets	+29	+215
Payments for investments in fixed assets	-7,198	-4,428
Payments for investments in intangible assets	-544	-1,384
CASH FLOW FROM INVESTING ACTIVITIES	-7,713	-5,597
Proceeds from increases in equity capital	+273	+186
Dividends to shareholders	-3,152	-1,256
Proceeds from new bank loans	+3,245	+775
Repayment of bank loans	-5,309	-11,693
Increase/decrease of current liabilities to banks	+7,132	+26,381
Proceeds from finance leases	-	+1,765
Finance lease payments	-2,395	-2,078
CASH FLOW FROM FINANCING ACTIVITIES	-206	+14,080
Effect of changes in exchange rates on cash and cash equivalents	-	+4
Net change in cash and cash equivalents	+496	-82
Cash and cash equivalents at the beginning of the period	+477	+555
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	+973	+477

FRoSTA Aktiengesellschaft, Bremerhaven

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2006

FRoSTA AG, a public limited company according to German law quoted on the stock exchange, and their subsidiaries develop, produce and sell frozen products in Germany and other European countries. The products are sold under their own brands "FRoSTA", "Elbtal" and "TIKO" and as private labels. The Group's headquarters are in Bremerhaven. FRoSTA AG's Executive Board approved the consolidated financial statements on March 19, 2007 for submission to the Supervisory Board. The Supervisory Board has to review the consolidated financial statements and to state whether it has their approval.

1 Accounting principles

FRoSTA AG's consolidated financial statements as at December 31, 2006 have been prepared in compliance with the International Accounting Standards Board's (IASB) financial accounting standards – the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRSs) – which are binding within the European Union with the restriction that we have not extended the notes to the consolidated financial statements to include segment reporting according to IAS 14 (see IAS 14 subpara. 50). In doing so all IAS or IFRSs (with the above exception) to be applied as at December 31, 2006 and the appropriate interpretations provided by the Standing Interpretations Committee (SIC) or the International Financial Reporting Interpretations Committee (IFRIC) were complied with. The requirements of the above-mentioned regulations were fulfilled with the exception of the IAS 14, so that FRoSTA AG's consolidated financial statements convey an appropriate picture of the assets, finances and earnings as well as the cash flows within the financial year.

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

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

Name and headquarters of company	Subscribed capital TEUR	Equity capital TEUR	Result for the year 2006 TEUR	Result for the year 2005 TEUR
1. COPACK Tiefkühlkost-Produktionsgesellschaft mbH, Bremerhaven	256	257	1	4
2. ELBTAL Tiefkühlkost Vertriebs GmbH, Lommatzsch	26	26	0	1
3. Feldgemüse GmbH, Lommatzsch	26	11	-5	-1
4. FRoSTA France S.a.r.l., Boulogne-Billancourt/France	153	510	12	43
5. FRoSTA Tiefkühlkost GmbH, Bremerhaven	255	255	0	5
6. FRoSTA GV-Partner GmbH Großverbraucher-Service, Bremerhaven	256	257	1	7
7. FRoSTA Italia s.r.l., Rome/Italy	10	145	9	10
8. FRoSTA Tiefkühlkost GmbH, Baden/Austria	36	208	19	18
9. FRoSTA ČR s.r.o., Prague/Czech Republic	35	108	-15	-15
10. FRoSTA Sp. z o.o., Bydgoszcz/Poland	5,170	4,621	1,234	635
11. BioFreeze GmbH, Bremerhaven	256	255	-1	3
12. TIKO Vertriebsgesellschaft mbH, Bremerhaven	256	257	1	5

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

2 Consolidation

a) Consolidation principles

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

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

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

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

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

b) Consolidated Group

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

In the financial year 4 subsidiaries and 1 associated company were not included in the consolidated financial statements because as a whole they are of minor importance as regards the consolidated assets, finances and earnings. The unconsolidated subsidiaries are mostly companies with no operational business.

4 c) Conversion of foreign currency transactions

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

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

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

Closing rate	2006	2005
Polish Zloty	3.8413	3.8686
Czech crowns	27.435	28.985

3 Illustration of accounting and valuation methods

5 a) Realisation of revenue and expenses

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

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

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

Dividends are recognised at the time they are paid out.

6 b) Intangible assets

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

Purchased intangible assets are valued at cost.

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

	Useful life in years
Software	4
Licenses	4

7 c) Tangible assets

Tangible assets are capitalised at cost and subjected to straight-line depreciation according to their probable useful economic life. Costs of self-produced assets include all direct

costs and all overheads that are incurred as a result of the manufacturing process.

Investment grants and investment subsidies received reduce the cost. In the financial year this reduction amounts to TEUR 8,859 (2005 TEUR 9,632). Financing costs are not capitalised as a part of cost. Costs for repairing tangible assets are always recognised as expenses. Capitalisation only occurs if the costs mean a development or important improvement in the asset. The assets to be capitalised are subjected to separate analyses for the purposes of measuring depreciation expense if significant cost segments have different economic useful lives.

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

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

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

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

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

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

8 d) Unscheduled depreciation of intangible assets and tangible assets

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

If it is not possible to determine the amount obtainable for individual assets, the cash flow for the next higher classification of assets for which this type of cash flow can be established, will be determined. The cash flow forecast of these cash-generating units is based on the detailed financial budget for the next years and the financial planning strategy over and above this period. The growth rates assumed do not exceed the average growth rates for the industry in which the respective cash-generating unit is active. The discount rate is based on a weighted average calculation of capital costs taking into account the borrowing capital/equity capital structure and amounts to 8.35% before taxes. Should there be no reason for unscheduled depreciation, a revaluation is carried out to a maximum of the cumulative procurement or manufacturing cost. On December 31, 2006 this amounted to TEUR 4,595. (2005 TEUR 5,790).

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

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

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

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

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

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

12 h) Financial resources
 The cash holdings and credit balances at banks are accounted at the nominal value.

13 i) Pension provisions
 Provisions for employer pension plans are established in line with IAS 19 according to the projected unit credit method, taking into account future adjustments in payment and pensions. The valuation of employer pension obligations is carried out based on expert pension reports. The cash value of the defined benefit obligation is determined by discounting the estimated future payments of the current benefits. The interest rate is based here on first class fixed interest bonds of a comparable term on the reporting date. The currency and maturity of the bonds should be in the same currency and have the same term as the vested pension claims.

Service periods and actuarial profits and losses are recorded in personnel expenses. The "corridor" method is therefore not used. The interest included in the pension payments is recognised in the interest expenses.

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

Jubilee or other long-service benefits and partial retirement are part of the long-term employee benefits. Provisions for jubilee benefits are valued under IAS 19 according to the projected unit credit method. Each year the actual value of the rights obtained on the reporting date must be put in reserves. Provisions for partial retirement benefits must also be made at their actual value.

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

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

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

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

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

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

These transactions are only concluded to safeguard the operative business and the financing procedures associated with it. US dollar requirements are predominantly hedged. These occur because FRoSTA purchases some of the raw materials it requires in this currency without reporting any US dollar income. Interest-rate swaps are used to hedge non-current variable financing transactions.

Derivative financial instruments are accounted at cost when purchased. At later dates they are recognised at their fair value. The banks establish the fair values according to market quotations.

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

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

Financial instrument	Type	31.12.2006		31.12.2005	
		Nominal amount TEUR	Fair value TEUR	Nominal amount TEUR	Fair value TEUR
call options	Option purchase TUSD	4,850	27	3,378	18
forward-exchange contracts	purchase TUSD purchase TPLN	14,730 0	-208 0	10,965 351	51 -64
interest-rate swaps	loan TEUR loan TPLN	6,597 0	35 0	8,622 795	-186 -32

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

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

The positive market value of the financial instruments is only shown under other assets and the negative market value under other liabilities. As the contracts the transactions are based on have only been concluded with financially sound banks, there are no financial risks for these instruments.

The due dates for the interest-rate swaps as at December 31, 2006 and 2005 are as follows:

	31.12.2006 TEUR	31.12.2005 TEUR
Within a year	1,456	2,819
Between one and five years	4,391	5,847
Over five years	750	750
Total	6,597	9,416

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

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

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

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

20 o) Fair values of the financial instruments
 The fair values of the financial instruments are determined based on appropriate market values or valuation methods. Cash and cash equivalents and other current primary financial in-

struments correspond to the fair values of the accounted book values on the respective reporting dates.

For non-current provisions and liabilities the fair value is determined based on the cash flows to be expected by using the benchmark interest rates valid on the balance sheet date. The

derivative financial instruments are established based on existing forward exchange rates and benchmark interest rates on the balance sheet date.

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

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

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

23 4) Application of further IFRS standards
 The IASB has published further standards and interpretations, however these were not yet mandatory as per December 31, 2006. In general, the Board does not expect any major effects on the consolidated financial statements of FRoSTA AG in the initial application period. But the first implementation of IFRS 7, "Financial Instruments: Disclosures" and the alterations made to IAS 1, "Presentation of Financial Statements: Capital Disclosures" will lead to additional notes on the financial statements. IFRS 7 and the alterations to IAS 1 become applicable for the first time in financial years beginning on or after January 01, 2007.

5) Notes on the consolidated balance sheet

24 a) Intangible assets
 The development of the individual items in the intangible assets is shown in the consolidated assets (p. 24).

The intangible assets chiefly concern the ERP software SAP/R3 purchased under the sale-and-lease back procedure. The soft-

ware and the hardware required to use it were sold under contracts of December 9, 2003, November 29, 2004 and May 1, 2005 for a total of 7.4 million Euro to Siemens Finance & Leasing GmbH, Salzkotten and re-purchased with the same contract as sale and lease back objects. The sale and lease back object is to be assigned to FRoSTA AG as commercial owner as of the commencement of the contracts. The contracts will run for 48, 36 and 32 months. The interest rates are between 4.44 and 5.48 %. The corresponding liabilities are shown under other liabilities.

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 2006 amounted to TEUR 1,110 (2005 TEUR 1,095).

2 b) Tangible assets

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

2 c) Financial assets

As regards the development of the financial assets please see the consolidated fixed assets. As regards the unconsolidated shares in subsidiaries the valuation on the balance sheet date is accounted for at cumulative cost.

2 d) Inventories

The inventories are comprised as follows:

TEUR	31.12.2006	31.12.2005
Raw materials and consumables	19,875	16,827
Unfinished goods	9,746	10,640
Finished products and goods	18,280	15,793
Down payments	1,125	0
Inventories	49,026	43,260

The lower net realisable value, in so far as this was necessary, taking into account sales and manufacturing costs still being incurred was recognised. The impairments of inventories shown in expenses amount to TEUR 1,372 (2005 TEUR 1,345).

2 e) Trade receivables

Trade receivables are comprised as follows:

TEUR	31.12.2006	31.12.2005
Trade receivables, gross	52,706	46,678
Value adjustments on trade receivables	-793	-974
Trade receivables	51,913	45,704

The receivables sold as part of asset backed security transactions (ABS) amounted to TEUR 28,244. Due to the structure of this contract brought forward, FRoSTA retains legal ownership of the receivables. The liabilities resulting from the pre-financing of the collection of the receivables are listed under "liabilities with financial institutes".

2 f) Other assets

FRoSTA AG's assets are made up as follows:

TEUR	31.12.2006	31.12.2005
Receivables from investment grants	295	481
Creditors with debit balances	225	141
Additional expenditure due to issue of employee shares	92	88
VAT and consumer tax	1,849	2,272
Other	600	923
financial assets	3,061	3,905
Delimitations	161	203
Partial retirement/bankruptcy insurance	98	156
Other assets	259	359
Sundry assets	3,320	4,264

3 g) Equity capital

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

3 Subscribed capital

The share capital of TEUR 16,226 has been fully paid in. Considering 6,338,389 shares the calculatory value is EUR 2.56 per share. Compared to the previous year there was a change in that 35,073 employee shares were issued at a special price of 273 TEUR. The shares' nominal value was TEUR 90.

Apart from this there are authorised capital funds, as yet unused, for a fixed period until June 30, 2007 amounting to EUR 345,314.56 for the issuing of shares to employees of FRoSTA AG and its affiliated companies, as well as authorised capital funds of EUR 5,000,000 for a fixed period until June 30, 2007 for a capital increase from cash contributions.

3 Capital reserves

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

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

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

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

According to the German Stock Corporation Law, the dividend to be paid out to the shareholders is measured according to the net profit stated in FRoSTA AG's annual financial statements. As per December 31, 2006, these came to TEUR 11,036 (2005 TEUR 8,551).

The Shareholders' Meeting on June 15, 2006 decided to pay out a dividend of EUR 0.50 per share (TEUR 3,152) and to transfer TEUR 5,399 into revenue reserves based on FRoSTA AG's net profit as at December 31, 2005.

FRoSTA AG's Executive Board proposes a dividend of EUR 0.60 per share for 2006 subject to the approval of the Shareholders' Meeting.

3 Balancing items from currency conversion

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

3 Additional expenditure due to issue of employee shares

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

The following share purchases were effected:

	2006	2005
Proposal I – number of shares	15,020	14,147
Issue price (EUR)	6.05	6.00
Market rate (EUR)	14.50	14.25
Estimated market price (EUR)	9.45	9.25
Balance (EUR)	3.40	3.25
Value (TEUR)	51	46
Proposal II – number of shares	20,053	11,204
Issue price (EUR)	9.10	9.00
Estimated market price (EUR)	12.50	12.25
Balance (EUR)	3.40	3.25
Value (TEUR)	68	36
Total (TEUR)	119	82

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

3 h) Pension obligations

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

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

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

In the financial years 2005 and 2006 the following parameters were used:

	2006	2005
Interest rate	4.50 %	4.00 %
Salary trend	3.00 %	2.00 %
Pension trend	2.00 %	1.25 - 2.00 %

The actuarial forecasts for the life expectancy are based on Dr. Klaus Heubeck's 2005 charts for the financial year 2006.

In 2006 and 2005 the following expenses were incurred:

TEUR	2006	2005
Current service costs	0	2
Actuarial profits	33	144
Expected income from plan assets	0	-3
Personnel costs	33	143
Interest paid	89	102
Pensions paid	122	245

The provision recorded in the balance sheet developed as follows:

TEUR	2006	2005
Provisions as per January 1	2,640	2,510
Pensions paid	122	245
Payments to pensioners	-153	-115
Transfer of pension to pension fund	-1,460	0
Provision as at December, 31	1,149	2,640

37 i) Other provisions

The other provisions are made up as follows:

TEUR	As at 01.01.2006	Utilisation	Write-back	Transfer	per 31.12.2006
Partial retirement	363	50	0	49	362
Jubilee payments	885	51	0	161	995
Sundry non-current provisions	1,248	101	0	210	1,357
Severance payments	101	66	23	232	244
Anticipated losses	223	51	172	21	21
Sundry current provisions	324	117	195	253	265
Sundry provisions	1,572	218	195	463	1,622

Provisions for anticipated losses related to pending sales contracts were created for orders already filled whose earnings do not cover their own costs.

38 j) Liabilities

	Total amount TEUR	thereof with a remaining maturity of			thereof secured by mortgages TEUR
		up to one year TEUR	between one and five years TEUR	more than five years TEUR	
Liabilities to banks (previous year)	49,516 (44,448)	40,672 (33,487)	8,844 (10,003)	0 (958)	8,895 (11,402)
Trade payables (previous year)	28,217 (26,949)	28,217 (26,949)	0 (0)	0 (0)	0 (0)
Liabilities to affiliated companies (previous year)	32 (32)	32 (32)	0 (0)	0 (0)	0 (0)
Other liabilities (previous year)	11,528 (13,304)	11,528 (11,055)	0 (2,249)	0 (0)	0 (0)

Bank loans and overdrafts are secured by mortgages (TEUR 7,645; previous year TEUR 9,819) and secured by similar rights (TEUR 1,250; previous year TEUR 1,583).

Bank loans and overdrafts are listed as follows:

	31.12.2006 TEUR	31.12.2005 TEUR
Non-current loans	8,844	10,961
Current loans	4,354	5,904
Current account liabilities	36,318	27,619
Debt discount	0	-36
Current liabilities to banks	40,672	33,487
Bank loans and overdrafts	49,516	44,448

Receivables sold in asset backed securities transactions (ABS) amounted to TEUR 28,244 as per December 31, 2006. After deducting a discount of TEUR 3,267, they are included in other current liabilities at a value of TEUR 24,977.

Bank liabilities as per December 31, 2006 and other liabilities which are long-term and of an exclusively financial nature have the following interest rates and maturity dates:

31.12.2006 TEUR	31.12.2005 TEUR	Interest rate in %	Maturity
Loans from financial institutions			
26	77	4.85	30.06.2007
51	153	4.85	30.06.2007
0	224	4.85	31.03.2006
825	304	4.45	02.01.2010
0	319	4.15	31.03.2006
294	441	3.75	30.09.2008
383	639	5.65	30.06.2008
0	775	6.15-8.60	14.02.2006
0	795	10.97	21.12.2006
1,250	1,583	4.73	30.09.2010
1,278	1,917	3.25	30.12.2008
2,891	3,893	5.95	30.08.2009
4,788	5,745	5.525	30.08.2011
371	0	Euribor + 1.20	20.07.2011
1,041	0	Wibor + 1.00	14.07.2008
13,198	16,865		

The other non-current liabilities result from the sale and lease back transaction with Siemens Finance & Leasing GmbH, Salzkotten.

31.12.2006 TEUR	31.12.2005 TEUR	Interest rate in %
Other non-current financial liabilities		
524	1,067	5.4782
1,037	2,232	4.4371
688	1,345	4.7822
2,249	4,644	
-2,249*	-2,395*	
0	2,249	

* current portion

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The other current liabilities are structured as follows:

TEUR	31.12.2006	31.12.2005
Financial liabilities from hire purchase of SAP/R3	2,249	2,395
Collection commissions	1,551	1,198
Customers with a credit balance	139	112
Other sundry financial liabilities	244	373
Financial liabilities	4,183	4,078
Liabilities to employees	2,669	2,275
Social security contributions	97	1,038
Taxes	563	532
Accruals	4,015	3,132
Other sundry liabilities	7,344	6,977

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

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

6) Explanatory notes to the consolidated income statement
40 a) Turnover

FRoSTA AG's turnover is made up as follows:

TEUR	2006	2005
Germany	208,224	186,535
Abroad	99,107	82,100
Sales revenues	307,331	268,635

41 b) Other operating income

Other operating income is structured as follows:

TEUR	2006	2005
Exchange rate profits	1,283	1,971
Income from charged-off accruals	655	861
Income from credits from previous years and charged-off liabilities	938	831
Income from mineral oil tax refund	523	353
Sundry operating income	1,029	907
Other operating income	4,428	4,923

42 c) Personnel costs

Personnel costs are split up as follows:

TEUR	2006	2005
Wages and salaries	38,936	37,205
Social security contributions	7,085	6,831
Pension costs	610	154
Costs of share-related remunerations	119	82
Personnel costs	46,750	44,272

The personnel costs include severance payments of TEUR 260 (TEUR 328 previous year). The interest paid included in the pension payments is accounted for in the financial result.

The following figures state the average numbers of personnel employed in 2006/2005:

	2006	2005
Wage-earners	782	730
Salaried staff	335	328
Temporary employees	99	79
Number of employees according to article 314 (1) No. 4 HGB	1,216	1,137
Apprentices	32	30
Number of employees	1,248	1,167

43 d) Depreciation and amortisation

A breakdown of depreciation and amortisation is as follows:

TEUR	2006	2005
Scheduled amortisation of intangible assets	1,852	1,800
Scheduled depreciation of property, plant and equipment	8,938	9,057
Depreciation and amortisation	10,790	10,857

44 e) Other operating expenses

Other operating expenses are grouped as follows:

TEUR	2006	2005
Storage and transport costs	12,634	10,863
Advertising costs	7,239	7,076
External personnel costs	7,204	5,142
Rent and cold-storage expenses	5,065	4,018
Maintenance	3,185	2,965
Costs for the German "Gruener Punkt" recycling program and transport packaging	973	1,399
Fees and contributions	403	1,392
Foreign currency exchange losses	1,751	1,060
Insurance costs	963	992
Travel costs	795	689
Legal and professional fees	616	618
Own vehicle and vehicle rental and leasing costs	632	548
Postal and telephone charges	449	497
Other taxes	298	280
Other expenses	4,037	4,580
Other operating expenses	46,244	42,119

4 f) Interest result

The interest result is divided up as follows:

TEUR	2006	2005
Income from interest on bank balances	5	11
Income from interest on loans	1	5
Income from interest swaps	35	0
Income from interest on tax credits	3	16
Other income from interest	45	29
Income from interest	89	61
Interest paid for bank loans and overdrafts	-1,178	-1,428
Interest paid for sale and leaseback transaction	-149	-232
Interest paid for pension reserves	-89	-102
Interest paid for accrued taxes	-8	16
Anticipated losses from interest rate swaps	83	-36
Amortisation of debt discount	-12	-15
ABS	-832	0
Other interest paid	-8	-22
Interest and similar expenses	-2,193	-1,819
Income from interest	-2,104	-1,758

4 g) Taxes on income and earnings and deferred taxes

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

Tax expenditure is divided up as follows according to origin:

TEUR	2006	2005
Current German taxes	5,896	4,987
Current foreign taxes	453	115
Current taxes for financial year	6,349	5,102
Taxes for previous years	-912	21
Taxes on income and earnings	5,437	5,123
Deferred taxes Germany	-1,194	-61
Deferred foreign taxes	-35	19
Deferred taxes	-1,229	-42
Tax expenditure according to income statement	4,208	5,081

The current tax expenditure was reduced by the loss carry forwards by TEUR 32 at the subsidiary in Poland (previous year TEUR 145).

The expected expense for taxes on earnings and income, which would have resulted if the parent company FRoSTA AG's tax rate of 37.25 % on the group result under IFRS before taxes had been used, is reconciled to taxes on earnings and income according to the income statement as follows:

TEUR	2006	2005
Result before taxes on income and earnings	14,575	13,491
FRoSTA AG's tax rate	37.25 %	38.50 %
Expected tax expenditure	5,429	5,194
Different tax rates	-389	-243
Taxes on income and earnings for previous years	-912	21
Tax expenditure for non-deductible operating expenses	252	109
Tax savings from tax-free earnings	-172	0
Tax expenditure according to income statement	4,208	5,081

For corporations based in Germany, 25% is paid for corporation tax and 5.5% for solidarity surcharge due on corporation tax. In addition, these corporations are liable to trade tax with the level depending on a community-based taxation scale. Trade tax reduces the assessment base for the calculation of corporate income tax. As of 2004 a limited use of the income tax and trade tax loss carry forwards has to be considered. The loss carried forward will reduce the first EUR 1 million fully, exceeding profits will be reduced by a maximum of 60%.

The effects of different tax rates for foreign taxes are separately reported in the reconciliation statement.

The transition from imputation method to half income system has resulted in a corporation tax credit amounting to TEUR 1,794. As from 2008, this tax credit will be paid out in ten equal instalments. The cash value has been activated in receivables from current taxes from income and earnings.

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

TEUR	31.12.2006		31.12.2005	
	Active deferred taxes	Passive deferred taxes	Active deferred taxes	Passive deferred taxes
Intangible assets	106	0	53	2
Tangible assets	0	7,975	0	8,925
Inventories	6	551	3	624
Trade receivables	20	70	61	108
Other assets	356	0	0	0
Pension reserves	77	0	243	0
Sundry provisions	251	0	423	0
Trade payables	85	8	4	7
Other liabilities	101	0	38	43
Temporary differences	1,002	8,604	825	9,709
Loss carry forwards	0	0	53	0
Total	1,002	8,604	878	9,709

The change in the deferred tax receivables and liabilities results from current deferred tax expenditures and tax proceeds amounting to TEUR 1,229.

4 h) Earnings per share

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

		2006	2005
Consolidated profit for the year	TEUR	10,367	8,410
Weighted average of issued shares	1,000 Shares	6,309	6,291
Consolidated profit for the year per share	EUR	1.64	1.33

A figure of EUR 1.64 (previous year EUR 1.33) is reported for the undiluted as well as for the diluted result.

7) Explanatory notes on the Group cash flow statement
Structure of the financial funds

The financial funds are made up of cash and credit at banks of TEUR 973 (previous year TEUR 477).

8) Explanatory notes on segment reporting

According to IAS 14, the notes to the consolidated financial statements have to be amended by segment reporting. We will not carry out any segment reporting, as we feel it is a disadvantage to publish this sensitive information about the Company. These disadvantages would particularly arise from competitors that do not have to publish their financial statements and large international groups, which only provide segment reporting at a superficial level.

9) Other information
Primary financial instruments

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

TEUR	31.12.2006		31.12.2005	
	Book value	Fair value	Book value	Fair value
Banks loans and overdrafts	49,516	49,596	44,448	44,798
Liabilities from SAP sale and lease back transaction	2,249	2,250	4,644	4,491
Other financial liabilities	1,933	1,933	1,683	1,683

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

a) Contingencies

The FRoSTA Group believes there are no significant contingencies.

b) Other financial liabilities

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

TEUR	2006	2005
Liabilities from current leasing contracts	1,394	1,087
Liabilities from current leases and maintenance agreements	3,469	3,753
Commitments from increase in capital investments	1,532	714
Other financial liabilities	6,395	5,554

Future payments from lease, maintenance and hire contracts as at December 31, 2006 have the following remaining maturities:

TEUR	< 1 year	1-5 years	> 5 years
Future payments from current leasing contracts	676	717	1
Future payments from current lease and maintenance contracts	1,961	1,354	154
Total	2,637	2,071	155

Total expenditure from sale and lease back contracts amounted to TEUR 3,123 and TEUR 3,160 respectively for the financial years 2006 and 2005.

54 c) Finance leases

Sale and lease back contracts were concluded for the purchase of new IT equipment and SAP software. The leasing assets were balanced at cost. The book values result as follows:

TEUR	31.12.2006	31.12.2005
Intangible assets	2,552	3,828
Tangible assets	538	759
Total	3,090	4,587

The corresponding liabilities are recorded under other liabilities. Minimum lease payments for the remaining maturities of these contracts expiring in 2007, as well as their cash values are grouped as follows:

TEUR	31.12.2006	31.12.2005
Leasing payments due:		
Within one year	2,285	2,544
Between one and five years	0	2,285
Total leasing payments	2,285	4,829
less: expected future interest payments	36	185
Liabilities under finance lease	2,249	4,644
thereof:		
Current	2,249	2,395
Non-current	0	2,249

55 d) Group auditor's remuneration

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

	TEUR
Final audit	48
Other certification or valuation services	1
Total	49

56 e) Affiliated individuals

Executive Board

Members of the FRoSTA AG's Executive Board in the financial year 2006 were:

- > Dirk Ahlers, businessman, Hamburg (Chairman)
 - Further appointments held by Mr Ahlers: Supervisory Board member at HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsverwaltung mbH, Hamburg
 - As at December 31, 2006: 2,245,076 FRoSTA shares = 35.4 %
- > Felix Ahlers, Hamburg (Vice President Marketing and Sales)
 - As at December 31, 2006: 1,447,710 FRoSTA shares = 22.8 %
- > Dr. Stephan Hinrichs, Bendestorf (Vice President Finance and Administration)
 - Further appointments held by Dr Hinrichs: Supervisory board member at Sievert AG, Hamburg
- > Jürgen Marggraf, Bremen (Vice President Operations)

The total number of Executive Board FRoSTA shares as at December 31, 2006 amounts to: 3,769,236 = 59.5 %.

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

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

Supervisory board

Members of FRoSTA AG's Supervisory Board in the financial year 2006 were:

- > Dr. Herbert Müffelmann, solicitor, Bremen (Chairman of the Supervisory Board)
- Further appointments held by Dr Müffelmann: Supervisory Board Member of Nabertherm GmbH, Lilienthal, and of F. Weyhausen Beteiligungs AG, Wildeshausen.
- > Ulf Weisner, businessman, Ratingen-Lintorf (Deputy Chairman of the Supervisory Board)
- > Jürgen Schimmelpfennig, employee at FRoSTA AG, Bremerhaven (employee representative)

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

In the financial year, the Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co., Hamburg, owned by Mr Dirk Ahlers, invoiced FRoSTA AG for travel expenses, rentals and commission on commodities sold totalling TEUR 115 (in the previous year TEUR 87). The balance at December 31, 2006 amounts to TEUR 17.

The consulting services for FRoSTA AG provided by Sozietät Büsing, Müffelmann & Theye, Bremen amounted to TEUR 63 (previous year TEUR 75). As at December 31, 2006 this produces a balance of TEUR 12.

Mr Ulf Weisner provided consulting services to FRoSTA AG worth TEUR 10 (2005 TEUR 15). This amounts to a balance of TEUR 12 (incl. VAT) on December 31, 2006.

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

The total remuneration of the Executive Board for the financial year 2006 amounted to TEUR 2,022 (previous year TEUR 1,853). Of this the fixed remuneration came to TEUR 809 (previous year TEUR 760) and variable remuneration TEUR 1,213 (previous year TEUR 1,093).

The total remuneration of former members of the Executive Board was TEUR 65 in the financial year (2005 TEUR 64). Pension reserves for former Executive Board members amounted to TEUR 650 on the balance sheet date (TEUR 518 in the previous year).

The remuneration of the Supervisory Board amounted to TEUR 41. Of that, TEUR 27 were variable and TEUR 14 fixed payments. The remuneration of the previous year at TEUR 23 comprised variable payments of TEUR 5 and fixed payments of TEUR 18.

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

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

59 h) Appropriation of profits

We will be proposing to the General Meeting of Shareholders that FRoSTA AG's net profit for the year totalling EUR 11,035,961.28 as per December 31, 2006 be appropriated as follows: a dividend of EUR 0.60 per share equalling a total dividend of EUR 3,803,033.40 be paid to shareholders and that the remaining amount of EUR 7,232,927.88 be allocated to the other revenue reserves.

60 i) Risk management report

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

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

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

Bremerhaven, March 29, 2007

The Executive Board



(D. Ahlers) (Dr. S. Hinrichs)
(J. Marggraf) (F. Ahlers)

Auditors' report

We have audited the consolidated financial statements of FRoSTA Aktiengesellschaft, Bremerhaven, comprising balance sheet, profit and loss account, statement of changes in equity capital, cash flow statement and notes to the consolidated financial statements, as well as its Company and Group management report for the financial year from January 1, 2006 to December 31, 2006. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs, as applicable in the EU, and the additionally applicable commercial provisions in accordance with Art. 315a (1) German Commercial Code (HGB) are the responsibility of the Company's management. Our responsibility is to provide an assessment of the consolidated financial statements and the Group management report based on our audit.

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

relevant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for making our assessment.

Our audit did not reveal any grounds for objection, with the following exception: Contrary to IAS 14, the notes to the Group financial statement do not include segment reporting.

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

Bremen, March 30, 2007

Gräwe & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft



Dr. Meyer Auditor Heilemann Auditor

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	Notes Item	2006 TEUR	2005 TEUR
1. Turnover	(8)	295,636	263,039
2. Increase in inventories of finished and unfinished goods		+1,384	+882
3. Own work capitalised		43	34
4. Other operating income	(9)	5,563	4,842
5. OPERATING INCOME		+302,626	+268,797
6. Cost of materials			
a) Raw materials, consumables and goods purchased for resale		-182,230	-154,369
b) Purchased services		-7,364	-6,163
		-189,594	-160,532
7. GROSS PROFIT		+113,032	+108,265
8. Personnel expenses			
a) Wages and salaries		-35,942	-34,595
b) Social security and other pension costs and for support thereof for pensions TEUR 1.029 (2005: TEUR 57)		-7,584	-6,382
		-43,526	-40,977
9. Depreciation/amortisation of intangible and tangible fixed assets	(3)	-7,097	-7,806
		-7,097	-7,806
10. Other operating expenses	(10)	-44,742	-44,480
11. OPERATING RESULT		+17,667	+15,002
12. Income from participating interests – thereof to associated companies TEUR 176 (2005: TEUR 0)		+211	+10
13. Other interest and similar expenses – thereof to associated companies TEUR 213 (2005: TEUR 155)		+260	+184
14. Interest and similar expenses – thereof to associated companies TEUR 17 (2005: TEUR 25)		-2,779	-1,464
15. Financial result		-2,308	-1,270
16. RESULT FROM ORDINARY BUSINESS ACTIVITIES		+15,359	+13,732
17. Taxes on income and earnings	(11)	-4,133	-4,998
18. Other taxes		-190	-183
		-4,323	-5,181
19. PROFIT FOR THE YEAR		+11,036	+8,551
20. Profit carried forward from previous year		+8,551	+9,095
21. Dividends		-3,152	-1,256
22. Transfer to revenue reserves		-5,399	-7,839
23. ACCUMULATED PROFITS		11,036	8,551

ASSETS

	Notes Item	31.12.2006 TEUR	31.12.2005 TEUR
A. FIXED ASSETS			
I. Intangible assets (3)			
1. Concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets		2,996	3,798
		2,996	3,798
II. Tangible assets (3)			
1. Land, land rights and buildings including buildings on land owned by third-parties		23,575	24,728
2. Plant and machinery		8,092	6,826
3. Other plant, operating and office equipment		5,199	5,259
4. Prepayments and assets under construction		506	809
		37,372	37,622
III. Financial assets (3)			
1. Shares in associated companies		3,827	3,828
2. Participating interests		17	17
3. Long-term securities		6	6
4. Employer's pension liability insurances		24	52
		3,874	3,903
		44,242	45,323
B. CURRENT ASSETS			
I. Inventories (2)			
1. Raw materials and consumables		16,049	13,247
2. Work and services in progress		9,246	10,268
3. Finished products and goods purchased for resale		16,347	14,426
4. Down payments		1,125	0
		42,767	37,941
II. Accounts receivable and miscellaneous other fixed assets (4)			
1. Trade receivables		48,421	43,683
2. Amounts owed by associated companies		3,084	3,335
3. Other assets		4,427	4,348
		55,932	51,366
III. Cash, bank balances and cheques			
		553	379
		99,252	89,686
C. DEFERRED INCOME			
1. Other accruals and deferrals		127	173
BALANCE SHEET TOTAL		143,621	135,182

4
2

LIABILITIES

	Notes Item	31.12.2006 TEUR	31.12.2005 TEUR
A. EQUITY CAPITAL (5)			
I. Subscribed capital			
		16,226	16,137
II. Capital reserves			
		7,696	7,512
III. Revenue reserves			
1. Statutory reserve		200	200
2. Other revenue reserves		17,139	11,739
		17,339	11,939
IV. Unappropriated profits			
		11,036	8,551
		52,297	44,139
B. PROVISIONS (6)			
1. Pension provisions and similar obligations		644	1,804
2. Provisions for taxes		2,920	3,227
3. Other provisions		13,407	10,833
		16,971	15,864
C. CREDITORS (7)			
1. Bank loans and overdrafts		47,618	43,767
2. Trade payables		16,201	15,720
3. Amounts owed to associated companies		2,739	2,492
4. Other creditors		7,795	13,170
– thereof taxes TEUR 525 (2005: TEUR 492)			
– thereof social security TEUR 0 (2005: TEUR 950)			
		74,353	75,149
E. DEFERRED INCOME			
		0	30
BALANCE SHEET TOTAL		143,621	135,182

4
3

MOVEMENT ON FIXED ASSETS FROSTA AG AS PER DECEMBER 31, 2006	PURCHASE AND MANUFACTURING COST					As at 31.12.2006 TEUR	ACCUMULATED DEPRECIATION, AMORTISATION AND WRITE-DOWNS				NET BOOK VALUE	
	As at 1.1.2006 TEUR	Additions TEUR	Transfers TEUR	Disposals TEUR	As at 31.12.2006 TEUR		As at 1.1.2006 TEUR	Additions TEUR	Disposals TEUR	As at 31.12.2006 TEUR	As at 31.12.2006 TEUR	As at 31.12.2005 TEUR
I. INTANGIBLE ASSETS												
1. Concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets	10,059	539	44	1,562	9,080	6,261	1,385	1,562	6,084	2,996	3,798	
II. TANGIBLE ASSETS												
1. Land, land rights and buildings including buildings on land owned by third-parties	60,576	611	8	0	61,195	35,848	1,772	0	37,620	23,575	24,728	
2. Plant and machinery	95,262	3,292	394	46	98,902	88,436	2,420	46	90,810	8,092	6,826	
3. Other plant, operating and office equipment	36,369	1,276	188	650	37,183	31,110	1,520	646	31,984	5,199	5,259	
4. Prepayments and assets under construction	809	331	-634	0	506	0	0	0	0	506	809	
	193,016	5,510	-44	696	197,786	155,394	5,712	692	160,414	37,372	37,622	
III. FINANCIAL ASSETS												
1. Shares in associated companies	7,555	0	0	1	7,554	3,727	0	0	3,727	3,827	3,828	
2. Participating interests	193	0	0	0	193	176	0	0	176	17	17	
3. Long-term securities	6	0	0	0	6	0	0	0	0	6	6	
4. Employer's pension liability insurances	52	0	0	28	24	0	0	0	0	24	52	
	7,806	0	0	29	7,777	3,903	0	0	3,903	3,874	3,903	
	210,881	6,049	0	2,287	214,643	165,558	7,097	2,254	170,401	44,242	45,323	

FROSTA Aktiengesellschaft, Bremerhaven

NOTES FOR THE FINANCIAL YEAR 2006 OF FROSTA AG

A. GENERAL REMARKS

1 The financial statements at December 31, 2006 have been prepared in accordance with the regulations for corporations included in the German Commercial Code (HGB), taking into account the additional provisions in the German Corporation Law (AktG).

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

B. ACCOUNTING AND VALUATION METHODS

2 *Intangible fixed assets* are shown at purchase costs less scheduled amortisation. Amortisation is recorded straight-line on the basis of the normal useful lives of the assets concerned.

Tangible assets are valued at purchase and manufacturing costs, less scheduled depreciation in the case of assets with a limited useful life. Unscheduled depreciation is carried out for extraordinary impairment. Unscheduled write-offs in the financial year totalled TEUR 0 (2005 TEUR 0). A fixed value of TEUR 158 has been assigned to transport pallets (2005 162).

Depreciation is calculated on the basis of the normal useful lives of the assets concerned. A switch is made from the declining-balance method to the straight-line method as soon as this causes a higher depreciation charge. Low value assets with costs of up to 410 EUR are fully written off in the year purchased and shown as disposals in the movements on fixed assets.

Investment grants and subsidies received or requested lower the procurement and manufacturing costs of the subsidised assets. The reduction as per December 31, 2006 amounts to TEUR 4,776 (in 2005 TEUR 5,376). The release of investment grants and subsidies amounting to TEUR 805 (in 2005 TEUR 786) directly reduces the "gross amortisation".

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

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

Purchase costs of raw materials, consumables and goods are based on the purchase prices plus incidental acquisition expenses. The Lifo valuation method is applied for raw fish. The difference according to art. 284 (2) no. 4 HGB when using the Lifo measurement for the raw product fish is TEUR 1,072 (2005 TEUR 1,333).

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

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

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

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

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

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

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

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

The extent to which the profits for each year have been affected by valuations in accordance with the German tax law (Art. 285 (5) HGB) in the financial year 2006 and the previous year is not of great significance to FROSTA AG's assets, finances and earnings.

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

I. BALANCE SHEET

3 1. Fixed assets

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

Participating interests

FROSTA AG has participating interests in the following companies:

Name and headquarters of the company	Share of capital %	Share of subscribed capital TEUR	Equity TEUR	Annual earnings 2006 TEUR
1. COPACK Tiefkühlkost-Produktionsgesellschaft mbH, Bremerhaven	100.00	256	257	2
2. ELBTAL Tiefkühlkost Vertriebs GmbH, Lommatzsch	100.00	26	26	1
3. Feldgemüse GmbH, Lommatzsch	100.00	26	11	-5
4. FROSTA France S.a.r.l., Boulogne-Billancourt/France	100.00	153	510	12
5. FROSTA Tiefkühlkost GmbH, Bremerhaven	100.00	255	255	0
6. FROSTA GV-Partner GmbH Großverbraucher-Service, Bremerhaven	100.00	256	257	2
7. FROSTA Italia s.r.l., Rome/Italy	100.00	10	145	9
8. FROSTA Tiefkühlkost GmbH, Baden/Austria	100.00	36	208	19
9. FROSTA ČR s.r.o., Prague/Czech Republic	100.00	35	108	-15
10. FROSTA Sp. z o.o., Bydgoszcz/Poland	100.00	5,170	4,621	1,234
11. Biofreeze GmbH, Bremerhaven	100.00	256	255	-1
12. TIKO Vertriebsgesellschaft mbH, Bremerhaven	100.00	256	257	2
13. Columbus Spedition GmbH, Bremerhaven	33.33	17	53 ¹	35 ¹
14. FROSTA Hungary Kft., Budapest/Hungary	100.00	25	30	46
15. FROSTA Romania S.R.L., Bukarest/Romania	100.00	26	32	-1
16. FROSTA Benelux B.V., Berkel-Enschot/The Netherlands	100.00	45	²	²
17. NORDSTERN America Inc., Seattle/USA	100.00	4	²	²
18. MIRELITE Außenhandels AG, Budapest/Hungary	6.60	69	²	²
				+1,340

¹ Applies to 2005

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

4 2. Accounts receivable and miscellaneous other fixed assets

The amounts owed by associated companies are a result of inter-company supply, service and clearing transactions and from taxes in conjunction with the consolidated tax filing arrangements.

An amount of TEUR 2,587 (2005 TEUR 2,963) owed by associated companies are financing costs. TEUR 1,293 (2005 TEUR 2,061) of this have a remaining period of more than one year.

As per December 31, 2006 trade receivables of TEUR 28,244 (2005 TEUR 0) were sold as part of asset backed security transactions.

Of the other assets, TEUR 1,185 (2005 TEUR 436) have a remaining term of more than one year.

5 3. Equity capital

The equity capital on December 31, 2006 was EUR 16,226,275.84 and is divided into 6,338,389 no-par value shares. The individual share certificates are made out to the bearer.

In compliance with the Shareholders' Resolution of June 15, 2006 a decision was taken to appropriate a sum of EUR 5,399,200.00 from the net profit of EUR 8,550,858.00 to other revenue reserves.

6 4. Other provisions

The other provisions in the consolidated financial statements mainly concern provisions for outstanding invoices (TEUR 3,669), personnel (TEUR 6,280), collection commissions (TEUR 1,551), anticipated losses due to incomplete transactions (TEUR 255) and licence fees (TEUR 112) for the "Grüner Punkt" (German system of separating refuse).

7 5. Liabilities and contingencies

The liabilities of FROSTA AG are as follows:

	Total amount TEUR	thereof with a remaining maturity of			thereof secured by mortgages TEUR
		up to one year TEUR	between one and five years TEUR	more than five years TEUR	
Bank loans and overdrafts to financial institutions (in previous year)	47,618 (43,767)	40,129 (31,979)	7,489 (10,830)	0 (958)	8,895 (11,402)
Trade payables (in previous year)	16,201 (15,720)	16,201 (15,720)	0 (0)	0 (0)	0 (0)
Liabilities to associated companies (in previous year)	2,739 (2,492)	2,739 (2,492)	0 (0)	0 (0)	0 (0)
Other liabilities (in previous year)	7,795 (13,170)	7,795 (10,921)	0 (2,249)	0 (0)	0 (0)
(in previous year)	74,353 (75,149)	66,864 (61,112)	7,489 (13,079)	0 (958)	8,895 (11,402)

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

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

By approval on February 13, 2006: PLN 2,000,000.00 (EUR 520,657.07) and PLN 3,200,000.00 (EUR 833,051.31).

By approval on July 26, 2006: PLN 4,000,000.00 (EUR 1,041,314.14)

By approval on September 4, 2006: EUR 550,000.00.

By approval on August 1, 2006 a further loan-securing guarantee amounting to PLN 2,000,000.00 (EUR 520,657.07) was made to the Deutsche Bank Polska SA in Warsaw for the liabilities of FROSTA Sp. z o.o.

As per December 31, 2006, liabilities with banks amounted to PLN 12,241,975.00 (EUR 3,186,935.41).

II. PROFIT AND LOSS ACCOUNT
8 1. Turnover

FROSTA AG's turnover is as follows:

	2006 Mill. EUR	2005 Mill. EUR	Difference %
Product sales			
- Germany	229	197	+16.2
- Abroad	90	85	+5.9
	319	282	+13.1
Sales deductions	23	19	+21.1
	296	263	+12.5

Classified into product groups, turnover is as follows:

	2006 Mill. EUR	2005 Mill. EUR	Difference %
Fish	148	125	+18.4
- Vegetables and fruit	82	75	+9.3
- Ready meals and other products	66	63	+4.8
	296	263	+12.5

9 2. Other operating income

Income to a total of TEUR 3,507 (2005 TEUR 2,027) from other periods is shown in other operating income. Amounts from the financial year 2006 are mainly due to the charge-off of advertising expenses and the write-back of personnel and other reserves.

10 3. Other operating expenses

Expenses of TEUR 193 (2005 TEUR 505) from other periods are included in other operating expenses.

11 4. Taxes on earnings and income

Net tax expenses of TEUR 1,761 (2005 TEUR 24) are also included in this item.

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

	31.12.2006 TEUR	31.12.2005 TEUR
a) Liabilities under current leasing contracts	1,234	1,063
b) Liabilities under current tenancy and maintenance contracts	3,286	3,517
c) Purchase commitment from expansion investments	1,192	714
	5,712	5,294
thereof payable by December 31, 2006:		
a) Liabilities under current leasing contracts	598	522
b) Liabilities under current tenancy and maintenance contracts	1,814	1,924
c) Purchase commitment from expansion investments	1,192	714
	3,604	3,160

The amounts shown are the nominal amounts.

E. HEDGING TRANSACTIONS/DERIVATIVES

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

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

Financial tool	Type	Level	Fair value TEUR
Call options	Option buy TUSD	6,400	-2
Forward exchange contracts	Buy TUSD	18,133	-216
Interest-rate swaps	Loans TEUR	6,597	0

F. Auditor's remuneration

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

	TEUR
Final audit	48
Other confirmation and assessment services	1
Total	49

G. OTHER INFORMATION
15 1. Number of employees

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

	2006	2005
Wage-earners	568	568
Salaried staff	276	275
Temporary staff	99	79
No. of employees according to Art. 285 no 7 HGB	943	922
Trainees	32	30
	975	952

16 2. Executive board

The following were members of FROSTA AG's Executive Board in the financial year 2006

- > Dirk Ahlers, businessman, Hamburg (Chairman)
 - Further appointments held by Mr Ahlers: Supervisory Board member at HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsverwaltung mbH, Hamburg
 - As at December 31, 2006: 2,245,076 FROSTA shares = 35.4 %
- > Dr. Stephan Hinrichs, Bendestorf (Vice President Finance and Administration)
 - Further appointments held by Dr Hinrichs: Supervisory Board member at Sievert AG, Hamburg
- > Jürgen Marggraf, Bremen (Vice President Operations)

- > Felix Ahlers, Hamburg (Vice President Marketing and Sales)
 - As at December 31, 2006: 1,447,710 FROSTA shares = 22.8 %

The total number of Executive Board FROSTA shares on the balance sheet date amounted to 3.769.236 = 59.5 %.

On February 19, 2004 the following information was published in accordance with art. 25 (1) WpHG:

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

17 3. Supervisory Board

Members of FROSTA AG's Supervisory Board in the financial year 2006 were:

- > Dr. Herbert Müffelmann, solicitor, Bremen (Chairman of the Supervisory Board)
 - Further appointments held by Dr Müffelmann: Supervisory Board member at Nabertherm GmbH, Lilienthal and F. Weyhausen Beteiligungs AG, Wildeshausen
- > Ulf H. Weisner, businessman, Ratingen-Lintorf (Deputy Chairman of the Supervisory Board)
- > Jürgen Schimmelpfennig, employee at FROSTA AG, Bremerhaven (employee representative)

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

18

4. Affiliated individuals

The Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co., Hamburg, owned by Mr Dirk Ahlers, invoiced FRoSTA for travel expenses, rentals and commission on commodities sold totalling TEUR 115 in the financial year 2006.

The consulting services for FRoSTA AG provided by Sozietät Büsing, Müffelmann & Theye, Bremen, amounted to TEUR 63.

Mr Ulf Weisner provided consulting services to FRoSTA AG amounting to TEUR 10 (2005 TEUR 15).

19

5. Remuneration according Art. 285 no. 9 HGB

The total remuneration of the Executive Board of FRoSTA AG for the financial year was TEUR 2,022 (2005 TEUR 1,853). Of this the fixed remuneration came to TEUR 809 (2005 TEUR 760) and variable remuneration TEUR 1,213 (2005 TEUR 1,093).

The total remuneration of former members of the Executive Board at FRoSTA AG was TEUR 65 in the financial year (2005 TEUR 64). Pension reserves for former Executive Board members amounted to TEUR 511 on the balance sheet date.

The remuneration of the Supervisory Board members amounted to TEUR 41 (2005 TEUR 23). Of that, TEUR 27 (2005 TEUR 5) were variable and TEUR 14 fixed payments (2005 TEUR 18).

20

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

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

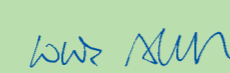
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7. Appropriation of profits

We will be proposing to the General Meeting of Shareholders that the net profit for the year totalling EUR 11,035,961.28 as at December 31, 2006 be appropriated as follows: that a dividend of EUR 0.60 per share equalling a total dividend of EUR 3,803,033.40 be paid to shareholders and that the remaining amount of EUR 7,232,927.88 be appropriated to the other revenue reserves.

Bremerhaven, March 29, 2007

The Executive Board



(D. Ahlers)



(Dr. S. Hinrichs)



(J. Marggraf)



F. Ahlers)

Auditors' report

We have audited the financial statements of FRoSTA Aktiengesellschaft, Bremerhaven, comprising the balance sheet, the profit and loss account, the notes to the financial statements as well as its Company and Group management report for the financial year from January 1, 2006 to December 31, 2006. Accountancy and presentation of financial statements and management report according to German commercial regulations are the responsibility of the Company's Executive Board. Our responsibility is to assess the financial statements, including accountancy and management reports, based on our audit.

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

the management report. We believe that our audit provides a sufficiently reliable basis for our assessment.

Our audit has not produced any objections.

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

Bremen, March 30, 2007

Gräwe & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft



Dr. Meyer
Auditor



Heilemann
Auditor

CORPORATE GOVERNANCE REPORT FRoSTA AG

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

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

Shareholders and Shareholders' Meeting

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

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

Supervisory Board

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

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

Executive Board

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

Financial accounting and auditing

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

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

Transparency

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

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

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

Declaration of compliance in accordance with § 161 AktG (German corporation law)

The Executive Board and Supervisory Board declare that the recommendations of the "Government Commission on German Corporate Governance Codes", in the June 2, 2005 edition published in the electronic Bundesanzeiger have been followed in the financial year 2006 with the following exception:

The recommendation to draw up several interim reports complying with internationally recognised accounting principles was not followed in 2006 as the Company draws up an interim report according to internationally-recognised accounting principles during the financial year which includes the most important key figures and comments about the Company. As from 2007, interim reports will be drawn up according to the current legal requirements for the year 2007.

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

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

With the above mentioned exceptions, the recommendation of the June 12, 2006 version has been complied with since publication and will continue to be complied with in future.

Remuneration of the Supervisory Board and the Executive Board

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

The members of the Executive Board receive remuneration that comprises:

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

Year	Basic remuneration (TEUR)	Remuneration for Share purchase (TEUR)	Variable remuneration (TEUR)	Total
2005	760	87	1,006	1,853
2006	809	129	1,084	2,022

The total remuneration of former members of the Executive Board at FRoSTA AG and in the Group amounted to TEUR 65 in the business year (2005 TEUR 64).

The members of the Supervisory Board receive remuneration that comprises:

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

Year	Basic remuneration (TEUR)	Success-related bonus (TEUR)	Total
2005	18	5	23
2006	14	27	41

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

The following transactions in securities requiring notification were carried out in 2006 with Company shares and published accordingly:

Date	Name	Type of business	Price per share	Number	Total volume
07.07.2006	Jürgen Marggraf	Share purchase	13.15 €	1,000	13,150.00 €
10.07.2006	Jürgen Marggraf	Share purchase	13.15 €	1,000	13,150.00 €
10.07.2006	Dr. Stephan Hinrichs	Share purchase	13.15 €	500	6,575.00 €
17.07.2006	Jürgen Marggraf	Share purchase	13.20 €	500	6,600.00 €
18.07.2006	Dr. Stephan Hinrichs	Share purchase	13.15 €	1,000	13,150.00 €
19.07.2006	Dr. Stephan Hinrichs	Share purchase	13.10 €	1,000	13,100.00 €
21.07.2006	Jürgen Marggraf	Share purchase	13.15 €	150	1,972.50 €

Shares owned by the Executive Board and Supervisory Board

Members of the Executive Board and the Supervisory Board have shares in FRoSTA AG of 59.47 %.

No member of the Supervisory Board has shares of more than 1 % in FRoSTA AG.

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

	%
Dirk Ahlers	35.42
Felix Ahlers	22.84

Bremerhaven, March 29, 2007

The Executive Board

FINANCIAL YEAR		← IFRS			HGB →			2000	1999	1998	1997
		2006	2005	2004	2003	2002	2001				
Employees (average)	number	1,248	1,167	1,138	1,118	1,162	1,214	1,160	1,140	1,171	1,236
Turnover	(mill. EUR)	307	269	264	262	284	299	275	287	293	280
EBITDA	(mill. EUR)	27.4	26.1	25.8	6.0	19.2	23.4	16.3	25.1	18.9	19.9
Depreciation	(mill. EUR)	10.8	10.9	10.4	10.7	10.9	14.5	12.9	11.2	10.5	11.4
EBIT	(mill. EUR)	16.6	15.2	15.4	-4.7	8.3	8.9	3.4	13.8	8.4	8.5
Return on sales (related to operating result) ¹⁾		5.4%	5.7%	5.8%	-1.8%	2.9%	3.0%	1.2%	4.8%	2.9%	3.0%
Result from ordinary business activities	(mill. EUR)	14.6	13.5	12.9	-7.4	5.2	4.6	0.6	11.0	5.0	5.5
Taxes on income	(mill. EUR)	4.2	5.1	5.1	0.0	2.5	1.6	0.4	3.8	0.2	2.2
Group result for the year	(mill. EUR)	10.4	8.4	7.8	-7.7	2.3	2.8	-0.1	6.9	4.6	3.6
Cash flow	(mill. EUR)	17.6	17.8	24.8	3.9	13.2	17.6	13.6	18.6	15.5	14.6
Investments	(mill. EUR)	7.7	5.8	6.6	6.4	8.4	8.6	30.6	19.5	10.0	11.6
Shares	number	6,338,389	6,303,316	6,277,965	6,265,203	6,254,233	6,244,241	6,227,900	6,199,503	6,169,717	6,150,909
Total dividend	(TEUR)	3,803	3,152	1,256	0	2,502	2,498	1,709	4,755	4,119	3,774
Dividend per share	(EUR)	0.60	0.50	0.20	0.00	0.40	0.40	0.77	0.77	0.77	0.61
Fixed assets	(mill. EUR)	66.7	68.8	73.7	57.3	63.8	66.3	76.1	60.6	54.8	57.7
Current assets	(mill. EUR)	107.3	95.0	61.4	59.8	68.4	63.7	70.1	83.0	101.5	88.3
Equity capital ²⁾	(mill. EUR)	70.4	62.7	55.1	31.5	39.8	41.0	41.8	41.7	38.5	39.8
Equity ratio ³⁾		40.5%	38.1%	34.3%	22.1%	25.5%	25.2%	24.4%	28.9%	24.5%	27.1%
Amounts owed to credit institutions	(mill. EUR)	49.5	44.5	28.8	42.7	42.5	46.8	46.9	55.6	70.9	58.4
Credit capital ratio ⁴⁾		28.4%	27.0%	17.9%	30.0%	27.3%	28.8%	27.4%	38.5%	45.2%	39.8%
Return on investment ⁵⁾		11.7%	10.9%	12.3% (HGB)	-3.6%	5.9%	6.0%	2.5%	10.3%	6.2%	6.3%
Return on equity ⁶⁾		20.7%	21.5%	23.4%	-24.4%	12.1%	10.7%	0.7%	25.7%	12.5%	14.6%

¹⁾ Operating result / (turnover / 100)

²⁾ incl. 60 % special item (only for the years with HGB accounting)

³⁾ [(Equity capital + 60 % special item - dividends) / (balance sheet total + ABS)] x 100 (only for the years with HGB accounting)

⁴⁾ Amount owed to credit institutions / (balance sheet result / 100)

⁵⁾ [EBIT / (average balance sheet total incl. ABS - average trade liabilities)] x 100

⁶⁾ (Profit for the year + taxes on income) / (equity capital per balance sheet / 100)

Dear Shareholders,

FROSTA AG was very successful in the financial year 2006. For the first time in several years, it was able to achieve double-digit growth in turnover and exceed the 300 million Euro mark. Unfortunately, the earnings result did not match this dynamic increase, with pre-tax profits failing to reach double figures. This was mainly due to higher costs for raw materials which could only be partially passed on to our trade partners and consumers.

For this reason, the Supervisory Board was closely involved in the last financial year in the sourcing of raw materials, especially in the procurement of white fish and vegetables at fair prices. A main theme of our consultations was the passing on of raw material price increases in the different sales segments. The further development of the FROSTA brand was another major point discussed at our meetings.

The Supervisory Board analysed the current company development in detail and offered advice on the planning for 2007. It also discussed important questions concerning investment and financial strategies. And finally, FROSTA AG's risk management system was another important item dealt with by the Supervisory Board.

In four sessions, the Supervisory Board discussed the prescribed topics as well as other points. In addition to this, the Supervisory Board's Financial and Personnel Committee dealt with specific financial and personnel matters at three meetings in the course of 2006.

On December 31, 2006 FROSTA AG's subscribed share capital amounted to € 16,226,275.84, comprising 6,338,389 shares. According to statements made to the Executive Board, the following persons held the following number of shares on that day:

Mr Dirk Ahlers - 2,245,076 shares (35.4 % of the share capital)

Mr Felix Ahlers - 1,447,710 shares (22.8 % of the share capital)

Ms Friederike Ahlers - 1,427,650 shares (22.5 % of the share capital).

According to a resolution passed by the Shareholders' Meeting on June 15, 2006, the Executive Board is entitled to acquire on behalf of FROSTA AG up to 10% of their own shares. So far, the Executive Board has not exercised this right, which has been granted for a period of 18 months.

The Supervisory Board appoints the members of the Executive Board and determines their number. The Supervisory Board can delegate the completion, alteration and termination of the employment contacts to a Supervisory Board committee. In 2006 there were no changes made to the Executive Board.

The Supervisory Board entrusted Gräwe & Partner GmbH, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen, elected during the General Meeting of Shareholders, with the task of auditing FROSTA AG's individual and Group financial statements. The auditors have checked the annual financial statement and granted an unqualified audit certificate. As in previous years, the Group financial statements were given a correspondingly qualified audit certificate because segment reporting was not carried out, since this would have exposed the Company to competitive disadvantages. The auditor's report was submitted to the members of the Supervisory Board's Financial Committee in good time. It was discussed and advisory assistance provided during the Supervisory Board's balance sheet meeting, as well as at the preceding Financial Committee meeting in the presence of the auditors. The Supervisory

Board declares that, having completed its assessment, it has no objections either to the consolidated and individual financial statements as per December 31, 2006 nor to the management report of 2006. The Supervisory Board has thus approved and passed the individual and Group financial statements prepared by the Executive Board.

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

The Supervisory Board would like to express its thanks to the Executive Board and to all employees for their successful performance during the business year 2006.

Bremen, April 2007.

For the Supervisory Board
Dr. Herbert Müffelmann

SUPERVISORY BOARD

Dr. Herbert Müffelmann
Bremen
Solicitor
Chairman

Jürgen Schimmelpfennig
Bremerhaven
Fitter

Ulf Weisner
Ratingen-Lintorf
Businessman
Deputy chairman

EXECUTIVE BOARD

Dirk Ahlers
Hamburg
Chairman

Felix Ahlers
Hamburg

Dr. Stephan Hinrichs
Bremerhaven

Jürgen Marggraf
Bremerhaven

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