# EBITDA ratio doubled from last year
# Loss € 11.4 million for the year 2006
# Restructuring cost expensed € 20 million for the year 2006

*Fourth quarter*

- **Sales amounted to € 358.3 million, up 18.5% from the preceding year**
- **EBITDA for the quarter amounted to € 2.0 million**
- **Cost of plant closure in the USA expensed during the quarter amounted to € 12.7 million**
- **Increase in the cost of merging Icelandic Germany and Pickenpack H&H amounted to € 2.1 million**
- **EBIT for the quarter amounted to € 14.5 million**
- **Net loss amounted to € 14.7 million**

*2006*

- **Sales amounted to € 1,471.3 million**
- **Increase in income was 22.6%, of which all was external growth**
- **EBITDA for the year amounted to € 36.9 million**
- **Earnings before interest and taxes (EBIT) amounted to € 5.5 million**
- **Net loss amounted to € 11.4 million**
- **Cash used in operating activities before taxes and interest amounted to € 17.4 million**
- **Total assets amounted to € 906.8 million – equity ratio 19.4%**
- **Return on equity was negative by 5.7%**
- **Cost of restructuring at Coldwater Seafood UK was € 1.6 million**
- **Cost of restructuring in France was € 2.8 million**
- **Total cost of restructuring during the year € 20 million**

Björgólfur Jóhannsson, CEO of Icelandic Group: *"We have been improving a number of operating units during the year that have not been showing acceptable results. The cost of these measures has been considerable, amounting to a total of € 20 million. The largest single item was the expensing in Icelandic USA, amounting to a total of € 12.7 million. In addition, the entire cost of closing the Company's plant in Cambridge, scheduled for 2007, has already been expensed in the accounts. The restructuring work at Coldwater Seafood UK has taken longer than estimated, as we have pointed out before. The relocation of the UK production to France has also taken longer than expected, but will be completed in the first half of 2007. It is the assessment of the management that the Company is now well placed to return good results in 2007. A number of companies within the Group performed well during the year, such as Icelandic Iberica, Jeka Fish, Icelandic Asia, Seachill, Icelandic UK, Icelandic Norway and Fiskval.*

*The price of raw material continued to rise throughout the year, which cut into the gross margin of the Group's manufacturing units.*

*Significant changes have been made in the operation of Icelandic France with the appointment of a new CEO at mid-year. Inventory has been reduced by over a half, from € 23 million around mid-August to just short of € 11 million at the end of the year. A decision has also been made to relocate all of the company's operations in Paris and to close two offices; one has already been closed. The cost of these measures has been expensed in 2006 together with the inventory write-down and the separation cost of the former CEO at total of € 2.8 million.*

*Extensive work has been done on taking the Coldwater Seafood UK plants out of the production of frozen products and into the production of chilled and ready meals, incurring an expense over the year of € 1.6 million. The Company management is optimistic as regards these changes and we anticipate that the changes will start to pay off as early as the first half of this year.*

*At Icelandic USA we are working according to a plan which provides for acceptable results in 2007; the final stage of the plan was presented last December, when the Company announced the sale of the Icelandic USA plant in Cambridge, Maryland, in 2007. The entire cost of the closure is expensed in 2006, including depreciation of fixed assets in the amount of € 9.5 million and projected separation costs amounting to € 3.2 million.*

*The results returned by Pickenpack H&H over the year were disappointing and far short of projections.*

*The third quarter report revealed that the fourth quarter was an important period for the company's results. Sales were projected at € 400 million, and there were anticipations of an EBITDA ratio of 4.5%. Sales during the quarter fell short of budget projections by € 40 million, and the EBITDA ratio was rather far short of the expected figure. The discrepancy is a result of closure costs and the longer duration of the restructuring process than expected, in addition to the fact that the turnaround of the production units was less than anticipated.*

## Income statement - quarterly summary

Amounts in thousands of euro

| | 4Q 2006 | 3Q 2006 | 2Q 2006 | 1Q 2006 | 4Q 2005 |
|---|---|---|---|---|---|
| Sales | 358.312 | 367.896 | 362.901 | 382.207 | 302.414 |
| Cost of goods sold | (326.274) | (323.954) | (325.845) | (340.533) | (272.587) |
| **Gross margin** | **32.038** | **43.942** | **37.056** | **41.674** | **29.827** |
| Other operating income | 2.370 | 3.196 | 3.610 | 1.411 | 1.349 |
| Other operating expenses | (48.699) | (40.148) | (34.603) | (37.083) | (40.645) |
| Interest in earnings of associates | (184) | 748 | 136 | - | 156 |
| **EBIT** | **(14.475)** | **7.738** | **6.199** | **6.002** | **(9.313)** |
| Financial expenses | (7.147) | (7.423) | (5.562) | (3.873) | (9.461) |
| **Pre-tax (loss) profit** | **(21.622)** | **315** | **637** | **2.129** | **(18.774)** |
| Income tax | 6.947 | 638 | 648 | (1.115) | 3.961 |
| **Net (loss) earnings** | **(14.675)** | **953** | **1.285** | **1.014** | **(14.813)** |
| **EBITDA** | 1.986 | 13.572 | 10.939 | 10.449 | (2.764) |
| **EBITDA ratio** | 0,6% | 3,7% | 3,0% | 2,7% | -1,1% |

## Balance sheet - key figures

Amounts in thousands of euro

| | 31.12.2006 | 31.12.2005 | Change% |
|---|---|---|---|
| Non-current assets | 407.282 | 275.231 | 48,0% |
| Current assets | 499.468 | 415.184 | 20,3% |
| Total assets | 906.750 | 690.415 | 31,3% |
| Equity | 176.241 | 116.702 | 51,0% |
| Minority share in equity | - | 39 | -100,0% |
| Non-current liabilities | 228.182 | 142.837 | 59,7% |
| Current liabilities | 502.327 | 430.837 | 16,6% |
| Total equity and liabilities | 906.750 | 690.415 | 31,3% |

## Statement of Cash flows

Amounts in thousands of euro

| | 2006 | 2005 | Change% |
|---|---|---|---|
| Cash generated (to) from operations | (14.740) | 40.260 | -137% |
| Net cash (used in) provided by operating activities | (42.833) | 18.519 | -331% |
| Net cash used in investing activities | (12.567) | (22.061) | -43% |
| Net cash provided by financing activities | 48.194 | 14.455 | 233% |
| (Decrease) increase in cash and cash equivalents | (7.206) | 10.913 | -166% |

## Accounting Procedures

The same accounting procedures were used in the preparation of this annual report as in the preparation of the annual report for 2005, apart from the fact that Icelandic Group now presents its accounts in euros.

## Income Statement for the fourth quarter and the year 2006

| Income statement - key figures | | | | Amounts in thousands of euro |
|---|---|---|---|---|
| | 4Q | | Year | |
| | 2006 | 2005 | 2006 | 2005 |
| Sales | 358.312 | 302.414 | 1.471.316 | 1.200.257 |
| Cost of goods sold | (326.274) | (272.587) | (1.316.606) | (1.084.702) |
| **Gross margin** | **32.038** | **29.827** | **154.710** | **115.555** |
| Other operating income | 2.370 | 1.349 | 10.587 | 4.761 |
| Other operating expenses | (48.699) | (40.645) | (160.533) | (118.057) |
| Share of profit of equity accounted investees | (184) | 156 | 700 | 154 |
| **EBIT** | **(14.475)** | **(9.313)** | **5.464** | **2.413** |
| Net financial expenses | (7.147) | (9.461) | (24.005) | (21.740) |
| **Pre-tax (loss) profit** | **(21.622)** | **(18.774)** | **(18.541)** | **(19.327)** |
| Income tax | 6.947 | 3.961 | 7.118 | 4.235 |
| **Net (loss) earnings** | **(14.675)** | **(14.813)** | **(11.423)** | **(15.092)** |
| **EBITDA** | 1.986 | (2.764) | 36.946 | 16.222 |
| **EBITDA ratio** | 0,6% | -0,9% | 2,5% | 1,4% |
| **Loss per share** | (0,0051) | (0,0069) | (0,0040) | (0,0075) |

Net sales over the quarter amounted to € 358.3 million, as compared to € 302.4 million in the preceding year. This represents an increase of 18.5%, which is mostly a result of external growth. Operating income over the year amounted to € 1,471.3 million, as compared to € 1,200.3 million in the preceding year. EBITDA in the fourth quarter amounted to € 2.0 million, as compared to an operating loss in the fourth quarter of 2005 of € 2.8 million. Over the year, EBITDA amounted to € 36.9 million. In 2005 the corresponding figure was € 16.2 million. EBIT in the fourth quarter amounted to € 14.5 million, as compared to a loss of € 9.3 million in the preceding year. EBIT over the year amounted to € 5.5 million, as compared to € 2.4 million in 2005.

The Group's sales in the fourth quarter fell considerably short of projections, which is partly explained by the fact that sales contracts negotiated by Coldwater Seafood UK and Icelandic USA ,which were scheduled for completion in December, were in fact not concluded until January of this year. Also, sales fell generally short of budget at Pickenpack H&H, Coldwater Seafood UK and Icelandic USA. Raw material prices continued to rise in the fourth quarter, which had a sustained negative impact on the gross margins of the Group's production companies; however, work has been in progress on passing on these price hikes on to the plants' product prices. In September, Icelandic Group took over the Delpierre manufacturing plant in France. According to the purchase agreement, negative goodwill amounted to € 1.8 million, taking into account the actual value of fixed assets. In line with international accounting standards, this amount is recognised as income for the year under other income.

The impact of associated companies was negative in the quarter by € 0.2 million but positive over the year as a whole by € 0.7 million.

Net financial expenses over the quarter amounted to € 7.1 million, as compared to € 9.5 million in the corresponding quarter of 2005. Currency gains amounted to € 1.6 million over the quarter, and € 5.9 million over the year. Financial expenses over the year amounted to € 24.0 million, as compared to € 21.7 million over the same period of last year.

In the fourth quarter income tax amounting to € 7.0 million was entered as income in the accounts, and the corresponding figure for the full year was € 7.1 million. Losses in the fourth quarter amounted to € 14.6 million, as compared to a loss of € 14.6 million over the corresponding period last year. The loss of the Group over the year was € 11.4 million, as compared to a loss of € 15.1 million in 2005.

**Cash Flow**

Net cash used in operating activities before taxes and interest amounted to € 14.7 million, as compared to net cash generated by operating activities of € 40.3 million in the preceding year. Net of interest and income tax, cash used in operating activities amounted to € 42.8 million, while last year cash generated by operating activities amounted to € 18.5 million. Net investments amounted to € 12.6 million, as compared to € 22.1 million in the preceding year. Financing activities amounted to € 48.2 million, as compared to € 14.5 million in the previous year. Net cash at the end of the year amounted to € 21.2 million.

**Balance Sheet**

Icelandic Group’s total assets at the end of September amounted to € 906.8 million, as compared to € 690.4 million at year-end 2005. The principal reason for the increase in assets was acquisitions of companies.

Fixed assets amounted to € 407.3 million at the end of the year, as compared to € 275.2 million at year-end 2005. Intangible assets amounted to € 256.1 million. According to International Financial Reporting Standards, an impairment review must be carried out of intangible assets at least annually, and such a review was carried out in the course of the preparation of the annual financial report for 2006. The Company’s third-quarter report revealed that the operation of Coldwater Seafood UK had been unsuccessful in 2006, and worse than the Company management had projected. Capitalised goodwill relating to Coldwater Seafood UK amounts to € 10.0 million. The acquisition by Icelandic Group of the Delpierre freezing division in France represents a step in the direction of improving the performance of the Icelandic freezing units in Europe, particularly in the United Kingdom. The production of frozen products by Coldwater Seafood UK will be relocated in France, and after the relocation Coldwater´s activities will focus exclusively on the production of chilled prepared meals. No impairment is proposed for Coldwater Seafood UK or any other company within the Group following the impairment review conducted in the course of the preparation of the annual financial statement.

Current assets amounted to € 499.5 million, of which inventory accounted for € 299.2 million. Total liabilities at the end of the year amounted to € 730.6 million, as compared to € 573.7 million at year-end 2005. Interest-bearing debts amounted to € 562.2 million, as compared to € 434.1 million at year-end 2005.

Equity at year-end amounted to € 176.2 million. The equity ratio was 19.4%, as compared to 16.9% at the start of the year. The increase in equity results from the fact that the principal acquisitions over the year were financed by new equity.

## Events in the fourth quarter of 2006

### *Closure of the Icelandic® USA, Inc., plant in Cambridge, Maryland*

Icelandic® USA, Inc, a subsidiary of Icelandic Group hf. will close down its plant in Cambridge, Maryland, before the end of 2007. This decision is taken in light of the fact that the company now has the capacity to manage all its production and distribution from its plant in Newport News, Virginia, and a recent distribution centre which is also located in Newport News. The closure of the Cambridge plant will result in an impairment of approximately € 9.5 million, which is expensed in the fourth quarter of 2006. An additional € 3.2 million will be expensed in connection with restructuring costs in the same quarter. The closure will result in substantial reductions in costs. The projected increase in EBITDA will amount to approximately € 11 million, which will enter the Company's books in full in 2008.

### *Chief Financial Officer resigns*

Bogi Nils Bogason resigned as CFO at the Company in mid-December. He had held the position since June 2004.

### *Change of Chairman*

In light of changes in the ownership structure of Icelandic Group, the Chairman of the Board, Gunnlaugur S. Gunnlaugsson, requested at a meeting of the Board of Directors in November to be released from his post. He will continue to serve on the Board of Directors of the Company. A new Chairman was elected, Magnús Þorsteinsson, who has served on the Board since October 2005.

### *CEO of Pickenpack H&H resigns*

In November, Dr. Norbert Engberg resigned as CEO of Pickenpack H&H. Dr. Engberg worked for the Company from May 2006.

## Icelandic Group Market Regions

### *UK*

Sales by Icelandic Group UK in the fourth quarter of 2006 amounted to € 107.4 million and € 446.3 million over the entire year, which represents an increase of 6.5% from the preceding year. Sales by Seachill over the year, mostly to Tesco, increased by 23% from 2005 levels. Sales by Coldwater Seafood UK increased by 3.1% from 2005. Owing to the high price of raw material, the gross margin was considerably short of the 2005 level. The results of Seachill and the marketing company Icelandic UK surpassed the budget for the year, but Coldwater's results were far short of the budget. The impaired performance of Coldwater is primarily a result of lower margins than anticipated owing to the high price of raw material, in addition to the substantial cost expensed during the year as a result of the shift of the company from the production of frozen products to the production of chilled and ready meals.

***USA***

Sales by Icelandic USA in the fourth quarter amounted to € 90.0 million and € 343.1 million over the year, which represents a growth of 8% from the preceding year. Results of the regular operation of Icelandic USA fell considerably short of expectations in the fourth quarter, in addition to the fact that an impairment was expensed amounting to ISK 0.9 billion (€ 9.5 million) and severance agreements were expensed in the amount of € 3.2 million as a result of the closure of the company's plant in Cambridge, Maryland. The operation of Icelandic USA has not returned acceptable profitability in recent months and years, and the closing of the Cambridge plant is a stage in restructuring the operations to ensure acceptable results.

***Asia***

The turnover of Icelandic Asia amounted to € 160.5 million, including sales to companies within the Group. The operation was successful in the fourth quarter and results in line with the budget.

Sales by Icelandic Japan over the year amounted to € 114.6 million, which represents an increase of approximately 6%, as compared to the 2005. The performance of the operation fell short of the budget for the year.

***Germany***

Pickenpack H&H´s turnover over the year increased by 26% from the preceding year and amounted to € 230.7 million. The figures for Pickenpack H&H include the operation of Icelandic Germany, as the companies were merged during the period. The performance of Pickenpack H&H over the year fell considerably short of management projections. The reasons are primarily sluggish sales owing to the hot weather experienced in July and August, in addition to the fact that prices of raw material rose throughout the year, with delays in passing on the price hikes.

***Spain***

The operation of Icelandic Iberica in Spain was successful over the year, with performance in line with expectations. Sales by the company amounted to € 91.7 million. The growth between years was 6%, of which organic growth accounted for 2%.

***France***

Icelandic France's turnover for the year amounted to € 67.1 million, which corresponds to a reduction of 9% from the preceding year. As revealed in earlier disclosures over the year, the performance of the company was extremely poor in the first six months of the year. The measures that have been taken to improve performance are beginning to show results, in addition to the fact that the company's inventory has been reduced from € 23 billion at mid August to € 11 million at year-end. This turnaround had its cost, as € 2.8 million have been expensed over the year as a result of inventory write-downs and severance agreements.

In early September, Pickenpack Gelmer S.A.S. took over the operation of the Delpierre Freezing Division, whose results are included from the date of the takeover. The turnover for the period September through December amounted to € 17.9 million.

***Denmark***

Icelandic Scandinavia and its subsidiary, Jeka Fish, entered the Icelandic Group consolidation as of 1 April 2006. The operation of the company is somewhat seasonal, as the first and last quarters of the year have the highest turnovers. The company's plant is invariably closed for the summer holidays for most of July. The Group's turnover in Denmark amounted to € 33.8 million in the period April through December with operating results exceeding projections.

**Approval of the accounts**

The Board of Directors of Icelandic Group hf. approved the annual accounts for 2006 at a meeting of the Board of Directors on 1 March 2007. The annual accounts were audited by the Company's auditors.

**Presentation for investors**

On Friday, 2 March, a presentation meeting will be held for market investors. The meeting will take place on the Company's premises at Borgartún 27, Reykjavík, starting at 16:30. At the meeting, the managers of the Company will present the financial statement. The presentation will be accessible on the Company website, www.Icelandic.is, following the meeting.

**Reporting schedule for 2007**

| | | |
|---|---|---|
| First Quarter 2007 | week 21 | May 20 - 26 |
| Second Quarter 2007 | week 33 | August 12 - 18 |
| Third Quarter 2007 | week 46 | November 11 - 17 |
| Financial Statement 2007 | week 10 | March 2 – 8 2008 |

**For further information, please contact:**

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Reykjavík, 1 March 2007
Icelandic Group hf.

## Income statement - five year review

Amounts in thousands of euro

| | 2006 | 2005 | 2004 | 2003* | 2002* |
|---|---|---|---|---|---|
| Sales | 1.471.316 | 1.200.257 | 802.624 | 679.183 | 633.873 |
| Cost of goods sold | (1.316.606) | (1.084.702) | (719.586) | (609.796) | (568.696) |
| **Gross margin** | **154.710** | **115.555** | **83.038** | **69.387** | **65.177** |
| Other operating income | 10.587 | 4.761 | 5.811 | 3.346 | 6.144 |
| Other operating expenses | (160.533) | (118.057) | (66.156) | (59.342) | (55.764) |
| Share of profit of equity accounted investees | 700 | 154 | (702) | (1.664) | 694 |
| **EBIT** | **5.464** | **2.413** | **21.991** | **11.727** | **16.251** |
| Net financial expenses | (24.005) | (21.740) | (10.449) | (3.836) | (6.068) |
| **Pre-tax (loss) profit** | **(18.541)** | **(19.327)** | **11.542** | **7.891** | **10.183** |
| Income tax | 7.118 | 4.235 | (4.672) | (2.119) | (2.892) |
| **Net (loss) earnings** | **(11.423)** | **(15.092)** | **6.870** | **5.802** | **7.291** |
| **EBITDA** | 36.946 | 16.222 | 28.941 | 19.250 | 21.690 |
| **EBITDA ratio** | 2,5% | 1,4% | 3,6% | 2,8% | 3,4% |

***The years 2002 and 2003 have not been amended to fit the IFRS**

## Balance sheet - five year review

Amounts in thousands of euro

| | 31.12.2006 | 31.12.2005 | 31.12.2004 | 31.12.2003* | 31.12.2002* |
|---|---|---|---|---|---|
| Non-current assets | 407.282 | 275.231 | 142.400 | 66.008 | 76.612 |
| Current assets | 499.468 | 415.184 | 279.994 | 229.977 | 202.618 |
| Total assets | 906.750 | 690.415 | 422.394 | 295.985 | 279.230 |
| Equity | 176.241 | 116.741 | 35.759 | 52.267 | 53.752 |
| Non-current liabilities | 228.182 | 142.837 | 112.860 | 35.935 | 41.401 |
| Current liabilities | 502.327 | 430.837 | 273.775 | 207.783 | 184.077 |
| Total equity and liabilities | 906.750 | 690.415 | 422.394 | 295.985 | 279.230 |

***The closing balance for 2002 and 2003 has not been amended to fit the IFRS**