Consolidated Financial Statements

2006

Bakkavör Group hf.
Tjarnargata 35
101 Reykjavík
Reg.no. 410886-1629

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Endorsement by the Board of Directors and CEO

The Consolidated Financial Statements for the year ended 31 December 2006, have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The Consolidated Financial Statements include the Financial Statements of Bakkavör Group hf. and its subsidiaries together referred to as the Company.

Ágúst Gudmundsson became CEO of Bakkavör Group from 26 May whilst Lýdur Gudmundsson, the former CEO of the Group, became Non-Executive Chairman.

In May 2006 Bakkavör Group hf. acquired the leading manufacturer of chilled desserts in the UK, Laurens Patisseries Ltd. In July 2006 Bakkavör Group hf. acquired a leading manufacturer of chilled bread products in the UK, New Primebake Ltd. In November 2006 Bakkavör Group hf. acquired Rye Valley Patisserie (now Pure Patisseries Ltd.), which specialises in the manufacturing of chilled desserts and acquired remaining shares of Fresh Cook Limited, a manufacturer of 'ready to cook' meals.

The Board of Directors and the CEO of Bakkavör Group hf. are of the opinion that the Consolidated Financial Statements for the year 2006 contain all the information necessary to form a clear picture of the Company's standing at year end, the years's operating results and the years's financial development.

Profit for the year, according to the Income Statement, amounted to GBP 68.2 million. Total equity amounted to GBP 241.4 million at the end of the year. The Board of Directors recommends a payment of dividend ISK 0.5 per share, which equals 50% of share capital, but otherwise refers to the Consolidated Financial Statements regarding changes in the Company's equity and disposal of profits.

At year end the number of shareholders were 3,804. At the beginning of the year there were 3,828 shareholders. At year end one shareholder holds more than 10% of the shares, Exista B.V. and related parties with 38.3% of the shares.

The Board of Directors and the CEO of Bakkavör Group hf. hereby confirm the Consolidated Financial Statements for the year 2006 with their signature.

Reykjavík, 31 January 2007

Board of Directors and CEO

Lýdur Gudmundsson
Chairman

Ágúst Gudmundsson
CEO

Antonios P. Yerolemou

Ásgeir Thoroddsen

Erlendur Hjaltason

Hreinn Jakobsson

Panikos J. Katsouris

Independent Auditor's Report

To the Board of Directors and shareholders of Bakkavör Group hf.

Report on the Financial Statements
We have audited the accompanying financial statements of Bakkavör Group hf., which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of Bakkavör Group hf. as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 31 January 2007

Deloitte hf.

Hilmar A. Alfredsson
State Authorized Public Accountant

Gudlaugur Gudmundsson
State Authorized Public Accountant

Consolidated Income Statement for the year 2006

	Notes	Fourth quarter 1 October - 31 December 2006	Fourth quarter 1 October - 31 December 2005	Twelve months 1 January - 31 December 2006	Twelve months 1 January - 31 December 2005
Net sales	5	329,161	252,170	1,219,189	722,065
Cost of sales		(239,047)	(180,599)	(892,912)	(513,521)
Gross profit		90,114	71,571	326,277	208,544
Other operating income		10	12	24	164
Operating expenses		(59,943)	(50,447)	(212,050)	(142,133)
Share of profit (loss) in associates		470	(278)	(318)	75
		(59,463)	(50,713)	(212,344)	(141,894)
Operating profit		30,651	20,858	113,933	66,650
Net finance costs	8	(10,098)	(9,764)	(47,360)	(28,269)
Profit before tax		20,553	11,094	66,573	38,381
Income tax	9	(4,714)	193	(15,237)	(6,048)
Profit from continuing operations		15,839	11,287	51,336	32,333
Discontinuing operation, net of tax	10	16,910	0	16,910	0
Profit for the year		32,749	11,287	68,246	32,333
Attributable to:					
Shareholders of Bakkavör Group hf.		32,753	11,271	67,617	31,986
Minority interest		(4)	16	629	347
		32,749	11,287	68,246	32,333
Earnings per share (GBP pence)	11	1.5	0.7	3.4	2.0

Amounts in thousands of GBP

Consolidated Balance Sheet at 31 December 2006

	Notes	31.12.2006	31.12.2005
Non-current assets			
Goodwill and other intangible assets	12	713,928	565,723
Property, plant and equipment	13	303,758	267,898
Investments in joint ventures and associates	14	7,395	4,699
Deferred income tax asset	18	3,797	2,080
		1,028,878	840,400
Current assets			
Inventories	15	35,767	31,839
Trade and other receivables	16	221,467	180,051
Cash and cash equivalents	16	39,695	82,317
		296,929	294,207
Total assets		1,325,807	1,134,607
Equity			
Share capital	17	14,924	10,813
Capital reserve		77,154	38,416
Translation reserves		(1,437)	(484)
Retained earnings		149,307	78,471
Shareholders' equity		239,948	127,216
Minority interest		1,499	136
Total equity		241,447	127,352
Non-current liabilities			
Deferred income tax liability	18	33,237	24,957
Subordinated convertible loan		0	12,868
Borrowings	20	682,440	666,398
		715,677	704,223
Current liabilities			
Current maturities of non-current liabilities	20	33,094	28,589
Other current liabilities		335,589	274,443
		368,683	303,032
Total equity and liabilities		1,325,807	1,134,607
Off Balance Sheet Items:			
Mortgages and commitments	22		

Amounts in thousands of GBP

Consolidated Statement of Changes in Equity for the year 2006

	Shareholders' equity						
	Share capital	Capital reserve	Translation reserves	Retained earnings	**Total**	Minority interest	**Total equity**
Equity 1 January 2005	10,813	38,416	0	38,985	88,214	0	88,214
Translation reserves			(484)		(484)		(484)
Actuarial gain recognised on pension plan				7,500	7,500		7,500
Profit for the year				31,986	31,986	347	32,333
Change in minority interest ...						(211)	(211)
Equity 1 January 2006	10,813	38,416	(484)	78,471	127,216	136	127,352
Translation reserves			(953)		(953)		(953)
Actuarial gain recognised on pension plan				6,500	6,500		6,500
Dividends				(3,281)	(3,281)		(3,281)
Increase of share capital	4,111	38,738			42,849		42,849
Profit for the year				67,617	67,617	629	68,246
Change in minority interest ...						734	734
Equity 31 December 2006	14,924	77,154	(1,437)	149,307	239,948	1,499	241,447

Amounts in thousands of GBP

Consolidated Cash Flow Statement for the year 2006

	Notes	2006	2005
Cash flow from operating activities			
Operating profit		113,933	66,650
Discontinued operation	10	21,299	0
Depreciation and amortization	12, 13	33,829	19,429
Other items		(9,175)	(751)
Changes in current assets and liabilities		5,180	18,225
Cash generated from operations		165,066	103,553
Payments of interest income and interest expense		(24,530)	(18,635)
Payments of tax		(9,036)	(2,859)
Cash flow from operating activities		131,500	82,059
Investing activities			
Property, plant and equipment	13	(37,902)	(16,413)
Acquisitions, net of cash acquired	24	(127,108)	(427,344)
Shareholdings		(2,404)	(2,343)
Investing activities		(167,414)	(446,100)
Financing activities			
Dividends		(3,281)	0
Bank loans		1,079	1,696
New borrowings		153,126	423,352
Payments of non-current liabilities		(157,299)	(3,114)
Financing activities		(6,375)	421,934
Net (decrease) increase in cash		(42,289)	57,893
Effects of foreign exchange adjustments		(333)	(84)
Cash and cash equivalents at beginning of year		82,317	24,508
Cash and cash equivalents at year end		39,695	82,317
Other information:			
Net cash provided by operating activities			
Profit for the year		68,246	32,333
Items not affecting cash		74,518	34,606
Working capital provided by operating activities		142,764	66,939
Changes in current assets and liabilities		(11,264)	15,120
Cash flow from operating activities		131,500	82,059
Property, plant and equipment		(37,902)	(16,413)
Free cash generated by operating activities		93,598	65,646
Non-cash transaction, part of acquisition price and subordinated loans paid with treasury stock		42,849	

Notes to the Consolidated Financial Statements

1. General information

Bakkavör Group hf. is a company incorporated and domiciled in Iceland. The Consolidated Financial Statements for the year 2006 comprise Bakkavör Group hf. (the parent) and its subsidiaries (together referred as the Company).

The Company prepares its Consolidated Financial Statements in GBP, which is the company's functional currency.

2. Significant accounting policies

Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The Consolidated Financial Statements have been prepared under the historical cost basis, except for revaluation of certain properties and financial instruments.

New and revised Standards

At the date of authorisation of these financial statements, the following Standards were in issue but not effective:

	Effective date:
- IFRS 7, Financial Instruments: Disclosures	1 January 2007
- IFRS 8, Operating Segments	1 January 2009

At the date of authorisation of these financial statements, the following Interpretations were in issue but not effective:

	Effective Date: Annual periods beginning:
- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	On or after 1 March 2006
- IFRIC 8, Scope of IFRS 2	On or after 1 May 2006
- IFRIC 9, Reassessment of Embedded Derivatives	On or after 1 June 2006
- IFRIC 10, Interim Financial Reporting and Impairment	On or after 1 November 2006
- IFRIC 11, IFRS 2: Group and Treasury Share Transactions	On or after 1 March 2007
- IFRIC 12, Service Concession Arrangements	On or after 1 January 2008

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company.

Basis of preparation

The preparation of the Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bakkavör Group hf. and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The Consolidated Financial Statements have been prepared using the purchase method of consolidation accounting. When ownership in subsidiaries is less than 100%, the minority interest in the subsidiaries' income and loss and equity is accounted for in the calculation of the consolidated income or loss and the consolidated equity.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition. Any excess of the cost of the acquisition over the fair value of the identifiable net assets acquired is recognised as goodwill.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Company.

All intra-company transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Company except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The Consolidated Financial Statements have been prepared using the purchase method of consolidation accounting. When ownership in subsidiaries is less than 100%, the minority interest in the subsidiaries' income or loss and stockholders equity is accounted for in the calculation of the consolidated income or loss and the consolidated stockholders equity.

The cost of the acquisition is measured at the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

Goodwill arising on acquisition is recognised as an assets and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

The results of subsidiaries acquired or disposed of during the period are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of associates are incorporated in the Consolidated Financial Statements using the equity method of accounting.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the income statement.

Where a company entity transacts with an associate of the Company, profits and losses are eliminated to the extent of the Company's interest in the relevant associate.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decision relating to the activities requires the unanimous consent of the parties sharing control.

Where a group company undertakes its activities under joint venture arrangements directly, the Company's share of jointly controlled assets and any liabilities incurred jointly with other ventures are recognized in the financial statements of the relevant company and classified according to their nature. Liabilities and expenses incurred directly in respect of interest in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Company's share of the output of jointly controlled assets, and its share in joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Company and their amount can be measured reliably.

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Company reports its interest in jointly controlled entities using the alternative equity method.

Where the Company transacts with its jointly controlled entities, unrealized profits and losses are eliminated to the extent of the Company's interest in the joint venture, except to the extent that unrealized loss provide evidence of an impairment of the assets transferred.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Goodwill

Goodwill arising on consolidation or a jointly controlled entity represents the excess of the cost of acquisition over the Company's interest in the fair value of the identifiable assets and liabilities and contingent liabilities of a subsidiary or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses and reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment is recognized immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit and loss on disposal.

The Company's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates" above.

Financial risk management

i) Financial risk factors

Financial risk management is an integrated part of the way the Company is managed. The Company's activities expose it to a variety of financial risks: market risks (including foreign exchange risk), credit risk, liquidity risk, cash flow risk and fair value interest-rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to manage certain risk exposures. Risk management is carried out within the Company under policies approved by the Board of Directors.

ii) Market risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to EUR and USD. The Company uses forward contracts to manage its foreign exchange risk arising from future commercial transactions, recognised assets and liabilities. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

iii) Credit risk

The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that sales made to customers with an appropriate credit history and that products are not delivered until payments are secured. The Company has policies that limit the amount of credit exposure to any of the subsidiaries.

iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Company aims to maintain flexibility in funding by keeping committed credit lines available.

v) Cash flow and fair value interest rate risk

The Company's income and operating cash are substantially independent of changes in market interest rates. The Company's cash flow interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rate expose the Company to fair value interest rate risk.

Foreign currencies

Transactions in currencies other than GBP are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Company's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Company's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through the income statement, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit and loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

i) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

ii) Financial assets measured at fair value through profit and loss

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:
• it has been acquired principally for the purpose of selling in the near future; or
• it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
• it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:
• such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
• the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
• it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described below.

iii) Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

iv) Available for sale (AFS) financial assets

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described below. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Company’s right to receive payments is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

v) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

vi) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Financial liabilities and equity instruments issued by the Company

i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

iii) Compound instruments

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar nonconvertible instrument. This amount is recorded as a liability on an amortised cost basis until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

iv) Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:
• the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
• the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

v) Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

vi) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:
• it has been incurred principally for the purpose of repurchasing in the near future; or
• it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
• it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:
• such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
• the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
• it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described below.

vii) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derivative financial instruments

The Company uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The significant interest rate risk arises from bank loans. The Company's policy is to convert a proportion of its floating rate debt to fixed rates. The Company designates these as cash flow hedged of interest rate risk.

The use of financial derivatives is governed by Company's policies approved by the board of directors, which provides written principles on the use of financial derivatives consistent with the Company's risk management strategy. The Company does not use derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than 12 months. Derivatives not designated into an effective hedge relationship are classified as a current asset or a current liability.

i) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

ii) Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Movements in the hedging reserve in equity are also detailed in the statement of changes in equity.

iii) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

iv) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

v) Hedges of net investment in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains and losses deferred in the foreign currency translation reserve are recognised in profit or loss on disposal of the foreign operation.

Fair value

The fair values of financial assets and financial liabilities are determined as follows:
• the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
• the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
• the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Revenue recognition

Revenue from sales is recognised when earned. Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets at their fair value. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation under finance leases.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profit against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of it assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in the income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following basis:

Real estate	2-5%
Equipment	5-33%

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities and product development is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development is recognized if, and only if, all of the following conditions are met:
- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to income statement in the period in which it is incurred.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Other intangible assets

Other intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Other intangible assets include licensing agreements, customer contracts and customer relationships.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost prices of processed inventories are direct material costs, direct wages costs and a proportion of indirect processing costs while cost price for purchased inventories is the actual cost of acquisition. Cost is calculated using the "first in – first out" – basis (FIFO). Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Provision

Provision is recognised when an enterprise has a present obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Pension

The Company's defined benefit plan requires contributions to be made to a separate administrated fund. The amounts charged to operating profit, as part of staff costs, are the current service cost. The interest on pension plan liabilities and the expected return on assets are shown as a net amount of other finance costs or income. Actuarial gains and losses are recognized immediately in equity.

Pension plan assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a corporate bond of equivalent currency and term to the plan liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred taxation, is included in the balance sheet.

Contributions to other Company pension plans are charged to the profit and loss account, in the period vested. Additional details are given in note 25.

3. Subsidiaries

Subsidiaries at 31 December 2006.

	Place of registration and operation	Interest	Principal activity
Bakkavor London Ltd.	United Kingdom	100%	Management company
Bakkavor Acquisitions Ltd.	United Kingdom	100%	Holding company
Hitchen Foods Ltd.	United Kingdom	100%	Packaging and marketing of fresh produce
Laurens Patisseries Ltd.	United Kingdom	100%	Packaging and marketing of desserts
Bakkavor Jersey Ltd.	Jersey	100%	Holding company
Bakkavor Invest Ltd.	United Kingdom	100%	Holding company
Bakkavor Ltd.	United Kingdom	100%	Holding company
Bakkavor Foods Ltd.	United Kingdom	100%	Preparation and marketing of fresh prepared foods
Katsouris Fresh Foods Ltd.	United Kingdom	100%	Preparation and marketing of fresh prepared foods
Bakkavor Birmingham Ltd.	United Kingdom	100%	Preparation and marketing of fresh prepared foods
Anglia Crown Ltd.	United Kingdom	100%	Preparation and marketing of fresh prepared foods
New Primebake Ltd.	United Kingdom	100%	Preparation and marketing of fresh prepared foods
Bakkavor Fresh Cook Ltd.	United Kingdom	100%	Preparation and marketing of fresh prepared foods
English Village Salads Ltd.	United Kingdom	95%	Packaging and marketing of fresh produce
International Produce Ltd.	United Kingdom	76%	Packaging and marketing of fresh produce
Cinquième Saison SAS Group	France	100%	Preparation and marketing of fresh prepared foods
Centrale Salades France SAS	France	100%	Preparation and marketing of fresh prepared foods
Crudi SAS	France	100%	Preparation and marketing of fresh prepared foods
Société Bretonne de Légumes Préparés SAS	France	100%	Preparation and marketing of fresh prepared foods
Bakkavor Overseas Ltd.	United Kingdom	100%	Import and exporter of machinery and equipment
Bakkavor Insurance (Guernsey) Ltd.	Guernsey	100%	Insurance and re-insurance
Bakkavor Properties Ltd.	United Kingdom	100%	Property managment
BV Negecos	United Kingdom	100%	Holding company
Geest European Marketing BV	Netherlands	100%	Holding company
Vaco BV	Belgium	100%	Preparation and marketing of fresh prepared foods
Geest (SA) (Pty) Ltd.	South Africa	100%	Preparation and marketing of fresh prepared foods
Bakkavor Asia Ltd.	United Kingdom	100%	Holding company
Bakkavor China Ltd.	United Kingdom	60%	Holding company

Bakkavör Group hf. also operates a finance branch in Switzerland to govern intercompany long-term liabilities and investments.

4. Quarterly statements

	Q4 - 2005	Q1 - 2006	Q2 - 2006	Q3 - 2006	Q4 - 2006
Net sales	252,170	258,606	298,483	332,939	329,161
Cost of sales	(180,599)	(190,281)	(219,154)	(244,430)	(239,047)
Gross profit	71,571	68,325	79,329	88,509	90,114
Other operating income	12	5	5	4	10
Operating expenses	(50,447)	(49,470)	(46,367)	(56,270)	(59,943)
Share of loss in associates	(278)	(402)	(178)	(208)	470
Operating profit (EBIT)	20,858	18,458	32,789	32,035	30,651
Net finance costs	(9,764)	(10,452)	(12,888)	(13,922)	(10,098)
Profit before tax	11,094	8,006	19,901	18,113	20,553
Income tax	193	(1,976)	(5,681)	(2,866)	(4,714)
Profit from continuing operations	11,287	6,030	14,220	15,247	15,839
Discontinuing operation, net of tax	0	0	0	0	16,910
Profit for the period	11,287	6,030	14,220	15,247	32,749
EBITDA	28,427	27,307	40,720	40,411	39,324
EBITDA (including discontinuing operation)	28,427	27,307	40,720	40,411	60,623
EBITDA ratio	11.3%	10.6%	13.6%	12.1%	11.9%
EBITDA ratio (including discontinuing operation)	11.3%	10.6%	13.6%	12.1%	18.4%
Working capital provided by operating activities	29,998	18,421	33,177	31,202	59,964
Cash flow from operating activities	53,357	19,433	24,067	51,502	36,498
Free cash generated by operating activities	47,844	12,401	16,555	40,699	23,943

5. Business and geographical segments

The Company operates in seven countries with over 4,500 products in 17 categories. Certain parts of the business are subject to seasonal fluctuations in sales. However, the Company operates a diversed portfolio of products that minimizes that effect.

The following table provides an analysis of the Company's sales by geographical market, irrespective of the origin of the goods/services:

	2006	2005
United Kingdom	1,122,731	669,374
Continental Europe	96,458	52,691
	1,219,189	722,065

The following table provides an analysis of the Company's sale by categories:

	2006	2005
"Hot eating"	488,531	340,199
"Cold eating"	500,547	267,386
Traded produce and Continental Europe	230,111	114,480
	1,219,189	722,065

The following table provides an analysis of the Company's operating profit (loss) by geographical market:

	2006	2005
United Kingdom (excluding discontinuing operation)	112,526	69,236
Continental Europe	1,407	(2,586)
	113,933	66,650

6. Salaries

Salaries and salary-related expenses paid by the Company are specified as follows:

	2006	2005
Salaries	272,972	179,652
Related expenses	32,351	20,601
	305,323	200,253
Average number of employees	15,888	14,365

	Salary and board fee	Benefits	Bonus	Pension	Shares*
Lýdur Gudmundsson, Chairman	341	68		1	** 826,209,416
Ágúst Gudmundsson, CEO	584	153	300	1	** 826,209,416
Antonios P. Yerolemou, Board member	25			1	74,534,353
Ásgeir Thoroddsen, Board member	25			1	1,418,164
Erlendur Hjaltason, Board member	19			1	1,192,400
Hreinn Jakobsson, Board member	25			1	1,500,000
Panikos J. Katsouris, Board member	25			1	52,336,471
Gareth Voyle, former CEO of Bakkavor Invest Ltd.	2,051	129	708	32	

No options, warrants or other rights were granted during 2006 and no member of the Board or management holds such rights.

* in Icelandic Króna (ISK) and including are holdings of their spouses, dependent children, and companies owned by them, if any.

** Ágúst Gudmundsson and Lýdur Gudmundsson in total hold control of 826,209,416 shares through Exista B.V. and related parties.

7. Fees to Auditors

	2006	2005
Audit of financial statements	283	290
Review of interim financial statement	170	16
Other services	1,013	1,564
	1,466	1,870

8. Net finance costs

	2006	2005
Interest income	2,325	2,792
Dividend	9	0
Interest expenses and exchange rate adjustments	(49,694)	(31,061)
	(47,360)	(28,269)

9. Income tax

	2006	2005
Current tax	17,936	10,502
Deferred tax (note 18)	1,690	(4,454)
	19,626	6,048

Reconciliation of effective tax rate:

	2006		2005	
Profit before tax	66,573		38,381	
Discontinuing operation, before tax	21,299		0	
	87,872		38,381	
Tax calculated at domestic tax rate	15,817	18.0%	6,909	18.0%
Effect of different tax rates of other jurisdictions	7,254	8.3%	2,301	6.0%
Tax effect of expenses that are not deductible	1,524	1.7%	308	0.8%
Tax exempt revenues	29	0.0%	(92)	(0.2%)
Equity transactions effecting taxes	0	0.0%	(1,290)	(3.4%)
Permanent differences for tax purposes	(1,085)	(1.2%)	260	0.7%
Utilisation of previously unrecongised tax losses/tax asset not recognised	(3,900)	(4.4%)	800	2.1%
Tax incentives not recognised in the income statement	0	0.0%	(1,300)	(3.4%)
Adjustments in respect of prior years	400	0.5%	(1,731)	(4.5%)
Other changes	(413)	(0.5%)	(117)	(0.3%)
	19,626	22.3%	6,048	15.8%

10. Discontinued operation

A fire, as previously disclosed, at the Barton site destroyed substantial part of the facility. The decision was made not replace the assets in question or other assets affected as result of the fire. The operation was therefore discontinued in this facility. The insurance claim reimbursement, in excess of book value, amounts to GBP 21.3 million.

Insurance reimbursement in excess of book value	21,299
Tax expense	(4,389)
	16,910

11. Earnings per share

The calculation of earnings per share is based on the following data:

	2006	2005
Net profit for the 12 months ended 31 December attributable to shareholders	67,617	31,986
Total average number of shares outstanding during the period (in million)	1,960	1,615
Earnings per share (GBP pence)	3.4	2.0

12. Goodwill and other intangible assets

	Goodwill	Licensing agreements	Customer contracts	Total
Cost at 1 January 2006	560,225	333	5,165	565,723
Additions and assessment changes in fair value during the year	147,781	0	1,639	149,420
Amortization during the year	0	(333)	(882)	(1,215)
At 31 December 2006	708,006	0	5,922	713,928
Carrying amount:				
At 31 December 2006	708,006	0	5,922	713,928

The Company tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the cash generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Company prepares cash flow forecasts based on actual operating results and derived from the most recent financial budgets approved by management for the next five years. Cash flows for future periods are extrapolated using a 2 per cent growth rate. This rate does not exceed the average long-term growth rate for the relevant markets. A pre-tax discount rate of 12 per cent has been used in discounting the projected cash flows.

Licensing agreements and customer contracts have finite useful lives, over which the assets are amortized. These intangible assets will be amortized on a straight line basis over their useful lives.

The amortization charge for each period is recognised as expense on the following basis:

Licencing agreements	18 months
Customer contracts	4 - 10 years

13. Property, plant and equipment

	Real estate	Equipment	Total
Cost at 1 January 2006	57,177	257,084	314,261
Accumulated depreciation at 1 January 2006	(5,733)	(40,630)	(46,363)
Book value at 1 January 2006	51,444	216,454	267,898
Acquisitions	13,230	22,572	35,802
Additions in 2006	8,677	31,202	39,879
Disposals in 2006	(811)	(598)	(1,409)
Depreciated 2006	(3,422)	(34,147)	(37,569)
Exchange differences	(423)	(420)	(843)
Book value at 31 December 2006	68,695	235,063	303,758

Insurance value of property, plant and equipment at year end amounts to GBP 744.7 million.

Depreciation and impairment in the Income Statement is specified as follows:

	2006	2005
Depreciation included in Cost of sales in the Income Statement	24,509	16,331
Depreciation included in Operating expenses in the Income Statement	7,301	3,098
Impairment included in Discontinued operation in the Income Statement	5,759	0
	37,569	19,429

14. Interest in joint ventures and associates

Joint ventures and associates at 31 December 2006.

	Place of registration and operation	Interest	Principal activity
Geest QV Ltd.	United Kingdom	55.0%	Marketing of fresh produce
Creative Foods	China	40.0%	Produce and manufactures salad products
Fram Foods hf.	Iceland	30.5%	Manufactures consumer packaged seafood

15. Inventories

	31.12. 2006	31.12. 2005
Raw material and packaging	30,076	22,493
Work in progress	979	1,101
Finished goods	4,712	8,245
	35,767	31,839

Insurance value of inventories at the end of the period amounts to GBP 31.2 million.

16. Other financial assets

Trade and other receivables:

	31.12. 2006	31.12. 2005
Nominal value of trade receivables	142,767	129,333
Allowance for doubtful accounts	(3,131)	(4,822)
Pension asset (note 25)	17,700	7,500
Other receivables	64,131	48,040
	221,467	180,051

The directors consider that the carrying amount of trade and other reveivables approximates their fair value.

Cash and cash equivalents:

Bank balances and cash comprise cash and short-term deposits. The carrying amount of these assets approximate their fair value.

17. Share capital

Share capital is registered in Icelandic króna (ISK) and is 2,157,888,219 ISK as required by the articles of association. At year end, the company's own shares amounted to 1,154,000 ISK.

Total share capital at year end according to the financial statements was GBP 14.9 million, as follows:

Total share capital	14,932
Own shares	(8)
	14,924

Changes in share capital are as follows:

Share capital at 1 January 2006	10,813
Changes during the year	4,111
Share capital at 31 December 2006	14,924

18. Deferred income tax asset and liability

	Deferred tax asset	Deferred tax liability	Total
At 1 January 2006	2,080	(24,957)	(22,877)
Arising on acquisition	0	(2,358)	(2,358)
Computed income tax for the year 2006	1,582	(21,208)	(19,626)
Income tax payable in 2006	135	17,801	17,936
Deferred tax movement associated with pension asset movement	0	(2,515)	(2,515)
Income tax assets (liability) at 31 December 2006	3,797	(33,237)	(29,440)

19. Dividends

The Annual General Meeting of Bakkavör Group, held on 24 March 2006, resolved to pay a dividend of 25% of nominal share value to shareholders. This corresponds to ISK 0.25 per share. Dividends were paid on 25 April 2006.

20. Non-current liabilities

	31.12. 2006
Borrowings in GBP	711,856
Borrowings in USD	3,678
Current maturities of non-current liabilities	(33,094)
	682,440

The borrowings are repayable as follows:

2007	33,094
2008	34,482
2009	161,172
2010	330,013
2011	155,757
Later	1,016
	715,534

Borrowings in total of GBP 542.3 million are secured over certain of land and buildings of the Company.

21. Derivative financial instruments

The Company utilises currency derivatives to hedge significant future transactions and cash flows. At the balance sheet date, the total notional amount of outstanding forward exchange contracts to which the Company is committed amounts to GBP 26.0 million.

The Company uses interest rate swaps to manage its exposures to interest rate movements on its bank borrowings. At the balance sheet date, the total notional amount of outstanding interest rate swaps amounts to GBP 411.5 million.

22. Mortgages and commitments

Operating lease commitments

The future minimum lease payments under non cancellable operating leases are as follows:

	31.12. 2006
Not later than 1 year	10,531
Later than 1 year and not later than 5 years	28,942
Later than 5 years	57,162
	96,635

Capital commitments

Capital expenditure contracted for, but not provided for in these accounts, amounted to GBP 7.8 million.

Purchase commitments

The Company has purchase commitments for the next 12 months to guarantee supply and price in the amount of GBP 8.7 million.

23. Contingent liabilities

There are a number of legal claims or potential claims against the Company, the outcome of which cannot at present be foreseen. Provision has been made for all liabilities which are expected to materialise.

At 31 December the Company has granted its subsidiaries and associates guarantees amounting to GBP 25.3 million.

24. Acquisitions

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Company:

	Laurens Patisseries Ltd.	New Primebake Ltd.	Other acquisitions	Total
Tangible assets	25,835	4,695	5,272	35,802
Inventories	999	819	2,544	4,362
Debtors	10,795	2,720	3,331	16,846
Cash	0	162	0	162
Total assets	37,629	8,396	11,147	57,172
Bank loans	(8,099)	0	0	(8,099)
Bank overdrafts	(1,706)	0	(1,105)	(2,811)
Taxation	(1,468)	(1,062)	709	(1,821)
Other creditors	(9,076)	(5,233)	(14,950)	(29,259)
Deferred taxation	(2,070)	(288)	0	(2,358)
Total liabilities	(22,419)	(6,583)	(15,346)	(44,348)
Net assets	15,210	1,813	(4,199)	12,824
Joint venture reclassified	0	0	3,178	3,178
Goodwill	115,614	16,708	16,465	148,787
Other intangible assets	0	1,639	0	1,639
	130,824	20,160	15,444	166,428
Satisfied by:				
Shares issued	30,000	0	0	30,000
Direct costs relating to acquisition	824	600	194	1,618
Cash consideration	100,000	19,560	3,250	122,810
	130,824	20,160	3,444	154,428

Net cash outflows and deferred payments in respect of the acquisition comprises of:

	Laurens Patisseries Ltd.	New Primebake Ltd.	Other acquisitions	Total
Cash consideration	(100,824)	(20,160)	(3,444)	(124,428)
Cash at bank and in hand acquired	(1,706)	162	(1,105)	(2,649)
Deferred payments	0	0	(12,000)	(12,000)
	(102,530)	(19,998)	(16,549)	(139,077)

In accordance with the relevant IFRS standard, the Company has carried out an assessment of the fair value of the assets and liabilities of each of the businesses and companies acquired in 2006. This assessment has established the fair values of the tangible assets as well as the intangible assets and inventories. The difference between the sum of the fair values less liabilities and the purchase price paid is accounted as goodwill at the time of acquisition, and is subject to an annual impairment test. The assessments have been carried out with the assistance of outside experts.

As permitted by IFRS 3 *Business combinations* the assessment of the fair value of the net assets is provisional up to one year from the date of acquisition.

All acquisition have been accounted for by applying the purchase method.

If the acquisition of Laurens Patisseries Ltd. had been completed on the first day of the financial year, the Company's operating profit for the period would have been GBP 5.1 million higher.

If the acquisition of New Primebake Ltd. had been completed on the first day of the financial year, the Company's operating profit for the period would have been GBP 1.1 million higher.

If other acquisitions had been completed on the first day of the financial year, the Company's operating profit for the period would have been GBP 1.4 million lower .

The operations of all acquired companies are integrated into the Company's current structure from the date of acquisition, information on results after date of acquisition until Balance Sheet date are therefore not available.

25. Pension

The Company operates a number of pension schemes in the UK and overseas. These schemes are either trust or contract based and have been set up in accordance with appropriate legislation. The assets of each of the pension schemes are held separately from the assets of the Company.

In the UK, the two main schemes, one a defined contribution scheme and the other a funded defined benefit scheme are open to employees joining the Company (full time or part time).

Pension costs charged in arriving at profit on ordinary activities before taxation were:

	2006
UK defined benefit plan net charge	(1,900)
UK defined contribution plan net charge	(467)
Overseas net charge	(226)
	(2,593)

No amounts were owed at the year end for the defined contribution scheme.

Defined benefit scheme

The valuation used for IAS 19 disclosures has been used upon the latest full actuarial valuation at 31 March 2004 and updated by the actuaries to take account of the requirements of IAS 19 in order to assess the assets and liabilities of the scheme at 31 December 2006.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus are inherently uncertain, were:

	31.12.2006	
	Expected rate of return	Estimated bid value
UK equities	8.0%	83,200
Overseas equities	8.0%	33,900
Corporate bonds	5.1%	19,000
UK government bonds	4.6%	6,400
Property	6.2%	14,100
Cash	4.0%	1,700
		158,300
Present value of scheme liabilities		(140,600)
Surplus in scheme		17,700
Related deferred taxation liability		(5,300)
Net pension asset		12,400

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

	31.12.2006
Rate of increase in salaries	4.5%
Rate of increase for pensions in payment and deferred pensions	3.0%
Expected return of scheme assets	7.3%
Discount rate	5.2%
Inflation assumption	3.0%

The amount charged to the Company's operating profit under IAS 19 of 1.6 million is analysed as follows:

	2006
Current service cost	(4,700)
Interest on pension scheme liabilities	(6,400)
Expected return on assets in the pension scheme	9,500
	(1,600)

Analysis of the amount recognised in the income statement:

	2006
Gain on assets	4,900
Experienced gain on liabilities	200
Gain on change of assumptions (financial and demographic)	4,100
Actuarial gain	9,200

Analysis of the movement in the surplus/(deficit) in the scheme during the year:

	2006
Surplus in the scheme at 1 January 2006	7,500
Contributions paid	2,600
Current service cost	(4,700)
Net financial return	3,100
Actuarial gain	9,200
Surplus in the scheme carried forward	17,700

History of experienced gains and losses:

	2006
Surplus between actual and expected return on scheme assets	4,900
% of scheme asset at the end of the year	3.1%
Experience gain on scheme liabilities	200
% of scheme liabilities at end of the year	0.1%
Actuarial gain recognised in statement of recognised income and expense	9,200
% of scheme liabilities at the end of the year	6.5%

26. Other matters

The Company has a GBP 55 million multi currency credit revolving facility (RCF). At 31 December GBP 27.9 million were available against the RCF.

The Company has purchased a business interruption insurance to the amount of GBP 1,098 million.

27. Related party transactions

The following transactions were carried out with related parties:

Tjarnargata 35 ehf.

Rent:	2006
Tjarnargata 35 ehf.	47

Tjarnargata 35 ehf. is owned by Ágúst Gudmundsson, CEO and Lýdur Gudmundsson, Chairman of the Board of Bakkavör Group hf.

Katsouris Brothers Ltd.; Katsouris family; AP Yerolemou and Others

Sales of goods and services:	2006
Katsouris Brothers Ltd.	100
Purchases of goods and other services:	
Katsouris Brothers Ltd.	5,889
Katsouris family	147
	6,036
Rent:	
AP Yerolemou and Others	141

Katsouris Brothers Ltd. is amongst others owned by Panikos J. Katsouris and Antonios P. Yerolemou, Board members of Bakkavör Group hf.

AP Yerolemou and Others is amongst others owned by Panikos J. Katsouris and Antonios P. Yerolemou, Board members of Bakkavör Group hf.

Joint ventures

	2006
Sales of goods and services:	
Sales to joint ventures	1,206
Purchases of goods and other services:	
Purchases from joint ventures	316

The above transactions were carried out on commercial terms

28. Events after the Balance Sheet date

There have been no material post Balance Sheet events which would require disclosures or adjustment to the 31 December 2006 Consolidated Financial Statements.

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 31 January 2007.