BAKKAVÖR GROUP
ANNUAL REPORT 2008

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www.bakkavor.com

Bakkavör Group is a leading international food manufacturing company specialising in fresh prepared foods and produce with a turnover of £1.6 billion in 2008. In addition to our core UK market we have operations in 9 other countries: France, Belgium, Italy, Spain, Iceland, South Africa, China and Hong Kong, the Czech Republic and the United States.

Our vision is to be recognised and respected as the world's leading fresh prepared foods and produce provider. We have attained leading market positions in our key market areas and we make over 6,000 products in 18 product categories which are developed and sold predominantly under our customers' own brands.

Bakkavör Group's main offices are in Reykjavík, Iceland, and in Lincolnshire, UK. Bakkavör Group hf. is listed on Nasdaq OMX Nordic Exchange in Iceland - www.nasdaqomxnordic.com (ticker: BAKK).

WHAT WE DID IN 2008 & TO DATE

- Secured funding across operating businesses for next 3 years
- Strengthened our trading operations with extensive restructuring
- Mitigated inflationary pressures
- Maintained sales performance in tough climate
- Increased market share in core product categories

HOW WE DID IN 2008

- Profitability and cash generation significantly affected by a number of one-off exceptional factors coupled with the tough trading environment
- Turnover £1.6 billion
- Underlying like-for-like sales growth 1.9%
- EBITDA pre-restructuring costs £109 million
- EBITDA margin pre-restructuring costs 6.7%
- Loss for the period £154.2 million, affected by one-off costs amounting to £177 million
- Cash flow from operations £45.7 million in 2008

Trading conditions continued to be immensely challenging in 2008. Along with many other businesses in our industry, we have been faced with ongoing inflationary pressures, the impact of economic turmoil and a steep downturn in consumer confidence.

Against this backdrop we remain cautious about the short-term trading environment in which we operate. However we continue to be confident about the long-term prospects of our business.

Here are five key reasons why:

Long term commitment

Trading around the world

Whilst we are focusing on our short- to medium-term performance, we remain 100% committed to our vision to be recognised and respected as the world's leading fresh prepared foods and produce provider.

We have sound operational funding, well-invested business operations and experienced senior management with vested interests in the business and we are confident of realising our vision in the long term.

Our presence in Europe, Asia and the US reflects the Group's targeted growth aspirations to capitalise on changing consumer demand in key markets around the globe. Our solid customer partnerships and unrivalled industry expertise have enabled us to establish firm positions in our target markets whilst maintaining our stronghold in the UK.

Right products every time for every budget

Our innovative culture and 'joined up' approach to new product development underpin our ability to make products successfully and rapidly that fulfil changing consumer needs. We supply a portfolio of over 6,000 products across 18 fresh prepared food categories and a variety of fresh produce categories which means we can cater for just about every meal occasion and budget.

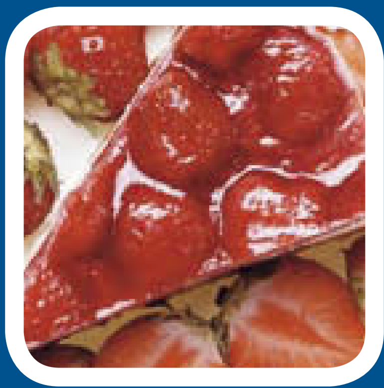
Real assets of our business

We employ over 19,000 hard-working people in 10 countries who share a common goal – to manufacture and supply world-class fresh prepared foods and produce to the global marketplace. Our ability to achieve this goal is underpinned by well-invested factories, a strong, experienced leadership team and long-standing customer relationships.

Taking action

Our short-term business priorities are to mitigate current inflationary pressures, improve operational efficiencies, increase market share and drive significant cash generation. To make this happen, we are not afraid to take tough decisions to maintain the long-term sustainability and profitability of our business.



10 REASONS TO INVEST

1 A DEFENSIVE MARKET

The UK grocery sector should see 3.1% growth in 2009, compared with a 0.6% decline in spending across the whole retail arena.

Source: Verdict

Despite the backdrop of economic uncertainty the overall food and drink sector has remained resilient. Consumers are tending to cut back on discretionary higher value items such as holidays, cars, and clothing before sacrificing the quality of foods they are used to buying. What has become important in the food and drink sector is the ability to offer good value for money at the 'right' price whilst still focusing on the key consumer drivers of convenience, health, pleasure and responsibility.
See page 16.

2 CONVENIENCE RULES

One in three UK shoppers considers convenience foods when choosing which food to buy.

Source: Mintel

People continue to look for short-cuts in all aspects of food preparation from how they buy, to how they prepare, cook and eat their meals. There is a generation of consumers who have been brought up with convenience-led solutions, including regular consumption of fresh prepared foods, which are part of their day-to-day lifestyles.
See page 17.

3 FOOD FOR EVERY NEED AND BUDGET

Within the next 20 years 40% of UK households will be single person households.

Source: Daily Mail March 2009

In larger households, family members may be sitting down to eat meals at different times and prefer something different to the rest of the family. For single person households, buying fresh prepared foods can often be a cheaper alternative than buying individual ingredients to create a meal. Fresh prepared foods therefore provide convenient, cost-effective solutions to fragmented eating patterns. See page 17.

4 COOKING FROM SCRATCH?

In the UK, 10% of consumers are unable to cook and a further 18% have a very limited repertoire.

Source: IGD

Despite a growing emphasis on cooking from scratch, the reality is that many people are unable or unwilling to do this day in day out and fresh prepared foods remain a viable alternative. In fact today many people classify using fresh semi-prepared ingredients such as pasta sauces and prepared vegetables as cooking from scratch as people still feel they are involved in the cooking process. See page 17

5 EATING IN IS THE NEW EATING OUT

We have produced an additional 1 million ready meals since July 2008 to meet the demand for Meal Deal/ Dine In promotions.

Source: Bakkavör

Eating habits are being affected by the recession as people manage tighter budgets. People are tending to cut back on eating out in upmarket restaurants instead treating themselves to restaurant quality foods they can easily prepare at home at a price they can afford. In the UK, for example, retailer 'dine in' meal promotions have become a popular choice. See page 18.

6

CONSUMER DEMAND FOR A HEALTHY BALANCE

Demand for freshly prepared fruit in the UK has increased by 57% over the last two years.

Source: Bakkavör

Rising obesity levels remain a key concern around the world. Confused by the constant stream of 'health' messages people are tending to take a simpler approach to health looking for meal solutions made from naturally healthy ingredients. The fresh prepared foods sector has been one of the most successful in providing naturally healthy convenient meal options that contain a balance of innately beneficial ingredients such as nuts, fish and vegetables. See page 18.

7

REAL ASSETS DELIVERING VALUE

We operate in a 'just in time' environment producing a portfolio of over 6,000 fresh prepared products in 18 categories. Adapting quickly comes as second nature to us.

Source: Bakkavör

Due to the nature of fresh prepared foods we operate in a demanding 'just in time' environment, requiring flexibility and efficiency to adapt quickly to changes in requirements on a day-to-day basis. We have over 19,000 employees based across 63 factories which produce an extensive portfolio of hot- and cold-eating products under our customers' value, standard, healthy and premium ranges – these are the real assets of our business. See page 29.

8

RETAIL GLOBALISATION

We trade with 7 of the ten largest global grocery retailers.

Source: Bakkavör

Although retailers are likely to take a more cautious and targeted approach to international expansion in the short term, in the long term global retailers such as Tesco, Wal-Mart, Carrefour and Metro are expected to focus increasingly on emerging market growth. Our expertise in and commitment to manufacturing fresh prepared foods under retailer brands is recognised by our customers. This means we are well placed to continue to expand with our customers overseas as well as in their domestic markets, helping them achieve their strategic goals. See page 20.

9

TARGETING EXPANDING MARKETS

We have operations in 6 of the top ten largest grocery retail markets.

Source: Bakkavör

Our presence in Europe, Asia and the US reflects the Group's targeted growth aspirations to capitalise on steadily increasing consumer demand in key markets around the globe. Our current sales growth in these regions is strong and our well invested facilities provide a favourable platform for future advancement. See page 20.

10

RETAILER BRANDS ARE FLOURISHING

Retailer branded products account for more than $81bn in the US, with health and wellness claims among the strongest-growing categories.

Source: Foodnavigator-usa.com.

Increasingly grocery retailers are focusing on their retailer branded ranges in order to provide good value for money and grow loyalty towards their 'brand'. More and more shoppers are turning to retailer brands as they are finding that these are just as good as, if not better than, manufacturer brands. Our experience as a retailer branded supplier with a wide product range and ability to adapt our portfolio rapidly means we can meet the demands of our customers and their consumers at any given time. See page 21.

OUR VALUES

Five core values underpin the way we do business and interact with our stakeholders. Our people are recruited, rewarded and appraised against these values to make sure that they are being lived within the Group as well as being reflected externally.

Customer care

We are committed to supplying outstanding service, quality and value, never forgetting that our relationship with our customers is pivotal to our success.

Can-do attitude

We encourage personal initiative and empower our people to make things happen. Our motivation comes from a determination to succeed in all we do.

Teamwork

We believe everyone has a valuable part to play in the success of our business. We aim to communicate effectively and are committed to the highest standards of ethics and integrity.

Innovation

We thrive on new challenges, looking for innovative ways to grow and improve our business further.

Efficiency

We endeavour to achieve efficiencies in all things we do, providing value for our customers and shareholders alike.

40%
owned by
senior
management

Secure
operational
funding

Maximising
cross-Group
synergies

Long-term commitment

Whilst we are focusing on our short- to medium-term performance, we remain 100% committed to our vision to be recognised and respected as the world's leading fresh prepared foods and produce provider.

We have sound operational funding, well-invested business operations and experienced senior management with vested interests in the business and we are confident of realising our vision in the long term.

CHAIRMAN AND CEO'S ADDRESS

Fellow shareholders,

It is hard for anyone to imagine a more difficult and challenging year than 2008 - a year marked by dramatic and swift changes in the global economy which has impacted markets, businesses and households around the world.

Like most other businesses, the impact of the economic crisis has affected Bakkavör Group at many levels – from inflationary pressures on commodities and depressed consumer demand through to the decrease in share price owing to the turbulence in the financial markets which impacted the availability and cost of credit.

Despite the difficult economic conditions which we face we have secured funding across our operating businesses for the next three years and we are committed to mitigating economic pressures as effectively as possible by focusing on our four business priorities.

Our business priorities:

- Mitigate inflationary costs
- Improve operational efficiencies
- Increase market share
- Drive significant cash generation

We have already made progress in improving operational efficiencies through significant restructuring across the businesses, offsetting inflationary costs and increasing market share in core product categories. This has allowed us to strengthen our trading operations and maintain our sales performance despite the slowdown in consumer spend.

One-off exceptional factors in 2008, however, did significantly affect our profitability and cash generation, such as the extensive restructuring activity we undertook and the loss on our investment in Greencore Group plc. With a reduced capital expenditure plan in place and cash benefits anticipated from restructuring activities we expect to return to good cash generation in 2009.

Whilst we are focused on our short- to medium-term performance we remain fully committed to our vision to be recognised and respected as the world's leading fresh prepared foods and produce provider. We are confident of realising our vision in the long term, with well-invested business operations, sound operational funding and experienced senior management with vested interests in the business.

Financial stability important for the business

In today's environment, sound financial backing is essential for the business to underpin performance and focus on its identified priorities. We have secured fully committed facilities across all operating businesses, for the next three years, to 30 March 2012. These agreements provide sufficient covenants and liquidity headroom to support the Group's business plan and clearly demonstrate to our customers, suppliers, employees and other stakeholders the financial stability of the operating businesses. We are currently in discussions with key bondholders of the Group's holding company, Bakkavör Group Hf, and the Board is confident from the indications of support from our key bondholders that we will achieve extensions to bond maturities.

Ágúst Gudmundsson
Chief Executive Officer

Lýdur Gudmundsson
Chairman

Responding quickly to changing consumer needs

Against the backdrop of the global economic downturn people have adopted a more cautious approach to shopping, tightening their spending in an attempt to manage household budgets. As a result they have become increasingly more focused on price and good value for money and grocery retailers have worked hard to deliver this through increased promotions and developing their retailer branded ranges, in particular their economy ranges. It has been imperative for us to focus on providing good quality fresh foods that can meet the promotional and range needs of our customers in conjunction with the price expectations of consumers. Whilst heavy promotional activity has delivered sales volume increases, it has impacted our profitability due to the rise in promotional costs.

Maintaining our sales performance

In extremely challenging trading conditions the Group delivered turnover amounting to £1.6 billion, increasing by 10% year-on-year with underlying like-for-like sales growth increasing by 1.9%. This clearly demonstrates the ability of the business to react effectively to changing demand and shows the defensive qualities of the food industry. Sales in the UK, our largest market, were affected by the downturn in ready meals and produce sales. We have been making steady progress to achieve our UK sales growth target in fresh prepared foods and in the fourth quarter we achieved sales growth ahead of the market supported by market share gains in ready meals, pizza and dips.

Outside the UK, despite intense competition in some regions and depressed consumer spend, our businesses in continental and Central Eastern Europe, Asia and the US, are achieving solid sales growth rates due to the growing consumer demand for fresh prepared foods in these targeted markets. These businesses continue to provide a favourable platform for future advancement.

Significant one-off costs and challenging trading conditions

Profitability in 2008 was affected by significant one-off factors amounting to £177 million such as substantial restructuring costs, loss on our investment in Greencore Group plc, mark--to market losses on interest rate swaps and foreign currency loans, and deferred taxation.

Trading conditions also affected our EBITDA, such as inflationary pressures, disruption caused by restructuring activities in ready meals, poor summer trading and a rise in promotional costs. EBITDA pre-restructuring costs amounted to £109 million, compared with £149 million the previous year.

Bakkavör Group is inherently a cash generative business. However our cash flow in 2008 was also impacted by the significant one-off factors such as capital expenditure which included the building of two new factories as well as

We have the advantage of being able to take actions quickly due to our decentralised structure whilst benefiting from Group synergies through better purchasing power and firm customer relationships. This means that we have lessened the impact of inflationary pressures to some extent. Nonetheless, in 2008 we still incurred a total cost inflation of £30 million which affected our short-term profitability and we will continue to treat mitigating inflationary pressures as a priority in order to generate savings and create value for the business.

the impact of the industry-wide credit insurance withdrawal which affected cash generation in the last quarter of 2008. Cash generation amounted to £45.7 million, down 67% year on year. However, we expect to return to good cash generation in 2009 with reduced capital expenditure and anticipated cash benefits from restructuring activities underpinning delivery.

Extensive restructuring to manage trading pressures and demand

Since late 2007 the Group has been implementing a strategic restructuring programme to address under-performing manufacturing sites and optimise capacity across the businesses. This process has involved significant restructuring across our ready meals operations as well as consolidation in other areas of the business. We believe our focus on improving operational efficiencies is fundamental in generating profitable growth in the long term. The actions undertaken have been essential for the businesses to ensure their long term sustainability and we are now better placed to manage ongoing trading pressures as well as adapt to current and future consumer demand.

Inflationary costs mitigated

Inflationary costs such as commodity price increases were recovered wherever possible and the Group continues to make good progress in this area through revised price agreements with customers and suppliers, consolidating our supplier base, simplifying the supply chain and maximising the Group's global economies of scale to source ingredients. We also implemented initiatives to improve energy, fuel and transport efficiencies and reviewed operational work practices to offset the rise in utility and distribution costs.

Dividends

At the Annual General Meeting of Bakkavör Group, held on 14 March 2008, the Board of Directors resolved to pay a dividend to shareholders which corresponded to ISK 0.55 per share or 55% of issued share capital. Dividends were paid on 15 April 2008.

The Board of Directors will recommend at the Group's Annual General Meeting on the 20 May 2009 that no dividends be paid out for the year 2009. This decision is based on the fact that following significant investment and expansion in recent years, the Directors believe it prudent to retain cash within the business to reduce indebtedness.

Changes to the Board of Directors

The Board of Directors of Bakkavör Group announced in February 2009 that non-executive Directors Antonios Yerolemou and Panikos J. Katsouris decided for personal reasons to step down as members of the Board of Directors. They have been involved with the business for many years and we would like to take the opportunity to thank Antonios and Panikos for all their work for Bakkavör Group and the significant contribution they have made to the business over many years.

Responsibility

Despite the challenging trading environment we have not lost sight of our responsibilities. We believe in continuous improvement and to help us achieve this we appointed a Corporate Social Responsibility Manager in 2008 to work closely with both our Health and Safety and Environmental teams to drive forward our identified priorities. During the year we focused on improving our internal communications on Health and Safety in order to raise awareness of best practice systems and procedures and we continued to make significant progress with environmental initiatives such as reducing waste to landfill, packaging, water usage and food miles across our sites.

Our people

Today, we have manufacturing sites in nine different countries and employ over 19,000 people. Throughout our restructuring programme we have had to make tough decisions which have affected employees across many sites. However we believe that the actions we have taken mean we can manage the ongoing pressures which we face.

We would like to take this opportunity to thank all our employees for all their hard work and commitment across all our countries of operation in what has been an unsettling and challenging period. We have a great business with well-invested facilities, and most importantly, excellent people.

Looking ahead

Along with other businesses in our industry, we expect the short-term trading environment, in which we operate, to remain challenging due to ongoing inflationary pressures, the impact of economic uncertainty and the downturn in consumer confidence.

Our continued focus on our business priorities to mitigate inflationary costs, improve operational efficiencies, increase market share and drive significant cash generation are still very important for the business in the short to medium term. We anticipate returning to profit growth and good cash generation from operations in 2009 driven by the benefits of the restructuring activity.

Due to the actions already taken, we believe the Group is now better placed to manage ongoing trading pressures as well as adapt to current and future consumer demand and are therefore confident about the long-term prospects of our business. Despite the short-term impact of economic uncertainty on consumer demand, we firmly believe that the four global mega-trends, convenience, health, pleasure and responsibility, are here for the long term.

We have a diverse range of products across a wide and strong customer base as well as the skills and capability to develop new products and ranges rapidly. This underpins our ability to successfully meet changing consumer needs and we are committed to adapting our portfolio wherever necessary to ensure our position remains strong within the markets in which we operate.

Lýdur Gudmundsson
Chairman

Ágúst Gudmundsson
Chief Executive Officer

SALES AND MARKET REVIEW 2008

Maintaining our performance despite difficult trading conditions

"In what are difficult operating conditions for many companies, we strengthened our trading operations and maintained our sales performance despite the slowdown in consumer spend.

Going forward, we expect the trading conditions to remain challenging. However due to the actions we have already taken and the continued focus on our business priorities we believe the Group is well placed to manage ongoing trading pressures as well as adapt to current and future consumer demand."

Ágúst Gudmundsson, CEO of Bakkavör

In this chapter we outline our 2008 sales performance and explain the various factors which impacted sales, including the slowdown in consumer spend and key changes in shopping behaviour, our restructuring activity and market share gains in our core categories.

Falling consumer confidence affecting expenditure

2008 marked the beginning of an unsettling period for consumers due to a combination of rising living costs, such as soaring food, fuel and utility prices, coupled with a decrease in spending power as a result of falling house and stock markets, rising personal debt and the threat of unemployment.

Consumer focus on price and value

As the year progressed consumer confidence fell significantly and in an attempt to manage household budgets and spending, people increasingly focused on price and value - adopting a more cautious approach towards grocery shopping. Changes in consumer spending were reflected in the December figures released by the UK Office of National Statistics (ONS) which recorded that in food stores, non-seasonally adjusted sales volumes fell by 2.1% which was the largest fall in the volume of food sales since April 1999. Gross Domestic Product (GDP) also decreased by 1.9% in Q4 compared to the same period a year ago.

To counteract the change in consumer sentiment, mainstream grocery retailers have worked hard to deliver value to consumers through increased promotions and expanding their economy ranges while discounters have gained popularity which has increased their market share. We believe this trend is likely to continue as long as the economic outlook remains uncertain. (See our chapter on Global Grocery Retail Trends page 20).

Changing demand affecting sales

Reflecting these conditions, we have seen sales volumes weaken in some areas of the business and our profitability has been affected by inflationary pressures, poor summer trading and a rise in promotional costs. We remain cautious about the short-term outlook for consumer confidence; however we have a diverse range of products across a wide and strong customer base as well as the skills and capability to develop new products and ranges rapidly. This underpins our ability to successfully meet changing consumer needs and we are committed to adapting our portfolio wherever necessary to ensure our position remains strong within the markets in which we operate.

Managing trading pressures and demand

Since late 2007 the Group has been implementing a strategic restructuring programme to address under-performing manufacturing sites and optimise capacity across the businesses. This process has involved significant restructuring across our ready meals operations as well as consolidation in other areas of the business. We believe our focus on improving operational efficiencies is fundamental in generating profitable growth in the long term. The actions undertaken have been essential for the businesses to ensure their long-term sustainability and we are now better placed to manage ongoing trading pressures as well as adapt to current and future consumer demand. (Further details on our restructuring programme can be found on page 51 of the Financial Review).

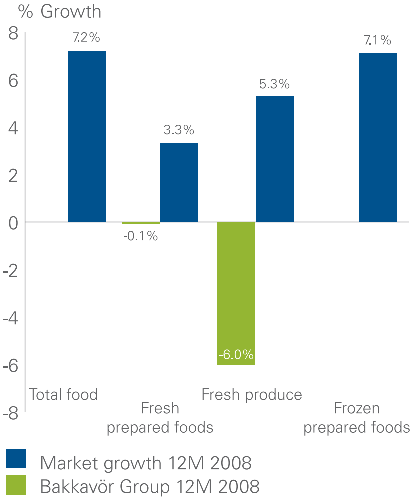
Market share gains

Our strategic restructuring programme has enabled us to strengthen our position in the UK ready meals market through successful market share gains in key segments of this category. These share gains took effect in Q4 2008, re-establishing the Group as the UK market leader in this core business. We also successfully gained market share in pizza and dips during the fourth quarter. Increasing our market share in these areas helps lift sales volumes affected by the slow down in consumer spend.

Weak summer trading

During 2008 the UK was affected by prolonged unsettled summer weather which hampered sales in our cold-eating markets, particularly leafy salads and convenience salads. This, along with the decline in our ready meals sales and the downturn in consumer confidence, held back our overall UK sales growth.

Food market growth 2008



Source: Bakkavör market estimates
Bakkavör internal sales

Our sales and developments by geographical market

United Kingdom

Sales in the UK include fresh prepared foods and fresh produce across both retail and foodservice markets.

UK sales represented 86% of the Group's turnover in 2008, amounting to £1,388 million, up 3.9%. Underlying[1] sales in the UK business decreased by 0.4%. A major factor behind the decline in the year has been the downturn in ready meals and produce sales.

Fresh prepared foods

The UK retail fresh prepared foods market is worth £7.6 billion (Source: TNS) and includes categories such as ready meals, desserts, leafy salads, convenience salads, pizzas, dips, prepared fruit and soups. Our UK fresh prepared foods sales account for 81% of our UK turnover.

Total food market influenced by price inflation

The size of the UK total food market is £62.1 billion (Source: TNS). In 2008 total food market growth by value was heavily influenced by price inflation. By the end of the year, food inflation was still robust and reported to be up 11.5% in December across total food category value sales (Source: Shore Capital Inflation Report Dec 2008). Whilst overall food inflation is expected to fall with some of the sharpest price increases dropping out of annual comparisons, it is still likely to influence food sales growth throughout the first half of 2009. Whilst food value growth has remained high throughout the year, food volume sales have weakened reflecting changes in consumer spending.

Cautious about market growth in the short term

In 2008 growth in the fresh prepared foods market was outpaced by total food growth, with fresh prepared foods experiencing less of a price inflation uplift than staple food items such as bread, milk, potatoes and cheese as well as being affected by a declining ready meals market (one of the largest categories within fresh prepared foods). At the start of 2009, the UK ready meals market returned to growth, however in view of the current economic backdrop we continue to be cautious about market growth in fresh prepared foods in the short term.

Bakkavör Group's growth target for UK fresh prepared foods, which is to achieve like-for-like sales growth[1] that is above market growth, was not achieved in 2008. Our overall fresh prepared foods sales growth was virtually flat at

-0.1% against a 3.3% market growth. Our Group sales were still affected by our strategic ready meals restructuring, coupled with weak summer trading in our cold-eating categories driven by the unsettled weather. We did however achieve strong sales growth rates in categories such as prepared fruit (+25%), ready to cook meals (+13%), pizza (+11%) and soups (+9%) and in Q4 our fresh prepared food sales grew ahead of the market with our performance supported by return to sales growth in ready meals following a period of decline.

Fresh produce

Our fresh produce sales include categories such as whole head lettuce, tomatoes and cucumbers and represent 15% of our UK turnover.

In 2008 market growth was up 5.3% by value. This was primarily driven by price inflation due to supply shortages caused by poor weather conditions which led to increases in raw material costs.

The Group's like-for-like[1] fresh produce sales declined by 6.0% in 2008.

[1] Underlying sales exclude acquisitions

Our performance was largely affected by a gradual loss of business with one of our main retail customers as part of their decision to reassess their sourcing arrangements. This was further impacted by the prolonged unsettled summer weather which affected the sales of salad vegetables as well as the overall decline in market volume due to current economic conditions. Whilst these developments are challenging to the Group's produce business, it is providing the business with the opportunity to re-evaluate its position in the market and develop a broader customer portfolio going forward.

Continental Europe

Bakkavör Group has operations in France, Spain, Italy, Belgium and the Czech Republic which manufacture fresh prepared foods such as leafy salads, pizza, ready meals, soups, prepared vegetables and prepared fruit.

Sound sales growth

Continental European sales represented 11% of the Group's turnover in the year, amounting to £183.9 million, up 43.9%. Like-for-like sales[2] in Continental Europe grew by 7% in the year on a constant currency basis.

Our continental European operations delivered solid sales growth despite aggressive competition from branded manufacturers and cautious consumer spending due to economic uncertainty. As in the UK, our operations have been experiencing challenging trading conditions throughout the year due to inflationary pressures such as higher distribution and raw material costs. Despite these conditions these businesses are making good progress in developing business opportunities with new and existing retail and foodservice customers.

To support and compliment our existing operations in Europe and the UK, we acquired two businesses in 2008, Italpizza, an Italian pizza business, and Fram Foods S.A. (now Bakkavör Traiteur), a French dips and bread business. Both acquisitions have allowed us to utilise cross-Group synergies, strengthen our competitive advantage and provide good potential for further growth within the global fresh prepared foods market. Through Italpizza, for example, we have already introduced unique wood-fired bases into the UK pizza market and at Bakkavör Traiteur, we recently launched a new chilled pizza range into the French retail market reflecting our strategic plan to diversify into new product categories in France. In addition we acquired the remaining shares of Heli Food Fresh, our Czech ready meals business and continued to build upon our position by refreshing our ready meals range to meet increasing consumer demand for fresh prepared traditional meals in the Eastern European region.

Asia and the US

Bakkavör Group has operations in Asia and the US. Sales in these geographical markets represented 3% of our turnover in 2008, amounting to £45.7 million, up 958%. Combined like-for-like[1] sales for Asia and the US grew by 46% in the year.

Gaining ground

2008 marked a busy year for the Group in Asia. Our Chinese fresh prepared foods business, Creative Food, broadened both its product and customer portfolios and gained increased distribution. By the end of 2008, the business had also secured new business with one of its foodservice customers which has already started to deliver further growth.

In addition, to strengthen our position in this fast-growing geographical market, we constructed a new facility in Xianyang City in China and in Hong Kong acquired stakes in Gastro Primo, a fresh prepared foods business, and La Rose Noire, a bakery and pastry business, to benefit from increasing consumer demand for fresh, convenience foods. We also acquired two produce providers, Yantai Longshun Foods and Guangzhou Riweijian in China. These new businesses are successfully being integrated and our presence in this region is now delivering direct sourcing benefits for the Group.

At the beginning of 2008 we entered the North American market with the acquisition of Two Chefs on a Roll, a Californian fresh prepared foods business, and opened a second facility in Pennsylvania which became profit-making at the end of the year. In addition, we transferred part of the plant and equipment from our closed UK pasta facility to the US and launched a range of fresh pasta products into the US market. Against the backdrop of a tough economic climate we are pleased with the progress of these operations and anticipate that further opportunities to develop this business will be realised in 2009.

[2] Like-for-like sales include acquisitions as if owned by The Group since 31 Dec 2006

Trading around the world

Knowing consumers

Diversifying geographically

Supporting customer expansion

Our presence in Europe, Asia and the US reflects the Group's targeted growth aspirations to capitalise on changing consumer demand in key markets around the globe. Our solid customer partnerships and unrivalled industry expertise have enabled us to establish firm positions in our target markets whilst maintaining our stronghold in the UK.

GLOBAL FOOD TRENDS

Recognising short-term demand; keeping long-term trends in sight

At Bakkavör, our success in developing foods that people want to eat day-in day-out relies on our understanding of the factors which influence their attitudes and behaviour and our ability to respond to changing consumer needs.

Against the backdrop of a global credit crunch and ongoing uncertainty regarding domestic and global economic prospects, it is not surprising that people have started to make changes to their lifestyles in order to manage the financial pressures that they are being faced with in the short term.

However, it is our view that the four global food mega-trends – convenience, health, pleasure and responsibility – will continue to be deeply entrenched for the long term. In this section, we explain why.

2008: managing short-term financial pressures

Throughout 2008 consumers around the world experienced an increasingly challenging period, following the start of the global economic downturn at the end of 2007. Rising living costs, brought about by soaring food, fuel and utility prices, a decrease in house and stock market values and the financial failure of many companies meant that people were faced with a decrease in spending power, unsecured personal debt and the threat of unemployment.

Good value for money high on the agenda

As a result, people have attempted to manage household budgets and spending more tightly by focusing on price and value for money – adopting a more cautious approach towards shopping and leisure activities. This is having a negative impact on sales of discretionary items such as cars, electronics and clothing as well as services such as upmarket restaurants and leisure venues.

In a recession consumer behaviour is seriously influenced in the short term. Long term, a recession may have a much smaller impact on broad consumer trends than often expected.

Source: www.trendwatching.com

Retail food markets quick to respond

Even though people 'still have to eat', food shopping and eating habits have also been affected by the economic downturn. Across the board it is becoming even more important that food offers good value for money at the 'right' price. Food retailers have been quick to respond to this demand with targeted advertising campaigns and more straightforward promotions [see page 20].

Food choices still influenced by long-term factors

Nonetheless, the four mega-trends – convenience, health, pleasure and responsibility – also remain as important as ever. These deep-rooted trends are influenced by long-term socio-demographic, economic, environmental and technological factors such as changing family and household structures, an ageing population, migration, female empowerment, rapid urbanisation, 24/7 access to goods and services and a growing interest in ethical issues. (See our website www.bakkavor.com for more information).

CONVENIENCE

Making life easier

Despite increasing concerns regarding the economy and personal finances, people are still striving to reduce time pressures and stress to achieve a meaningful work-life balance.

Busy lifestyles, a lack of cooking skills and less of an inclination to cook from scratch mean that the desire for convenience continues to be intrinsic when making food choices and is expected in all stages of food preparation – from where and how food is bought, through to how it is prepared, cooked and eaten.

Shopping short-cuts

Few would argue that in the developed world people live increasingly in a 24-hour society. Owing to the popularity of the Internet and faster broadband connections people have become accustomed to their needs being met more quickly and at times that fit in with their lifestyles. This has given rise to a more flexible, 'on demand' approach to shopping and, according to Datamonitor, online grocery food sales are expected to growth by a compound annual growth rate (CAGR) of 23.9% in Europe and 10.8% in the US between 2007-2012.

More recently people have perceived shopping online as a way to take better control of their budget as they can compare prices and view promotional offers easily, create fixed shopping lists and save on fuel costs by staying at home. Grocery retailers have therefore used their online shopping sites as an important vehicle to flag to consumers 'value for money' food products, increasingly focusing on promoting their retailer-branded alternatives.

Cooking short-cuts

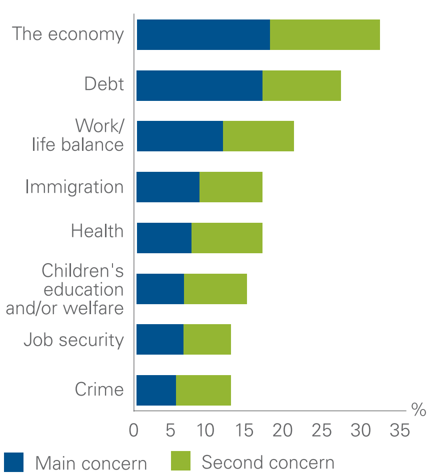
In recent years greater emphasis has been put on people in the Western world (through government campaigns, in particular) to cook from scratch in order to revive cooking skills and improve unhealthy diets. In reality, people continue to look for 'short-cuts' in food preparation and cooking to reduce the time and effort involved, especially during the week. In fact, according to IGD, most people now classify the use of semi-prepared ingredients (such as fresh pasta, prepared vegetables and chilled cooking sauces) as part of their perception of what 'cooking from scratch' means.

Cooking short-cuts are popular not just in single-person households but also in larger households where fragmented eating occasions mean that members of the same family sometimes eat different foods at different times. For these households 'true' cooking from scratch with individual ingredients can invariably be too expensive, too time consuming and too wasteful.

Prepared and semi-prepared fresh food products such as ready to cook meals, prepared vegetables and fresh sauces are often attractive choices as they can

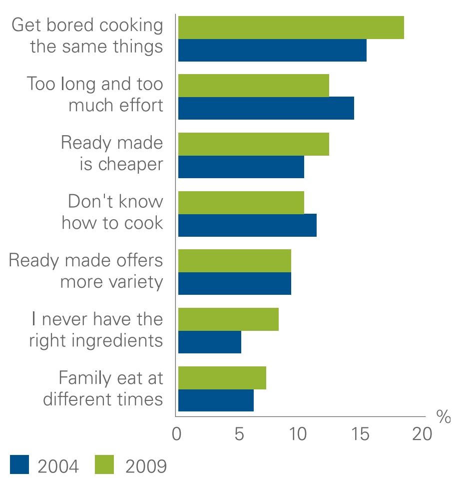
> 10% of consumers are unable to cook... a further 18% have a very limited cooking repertoire and so choose pre-prepared food to alleviate boredom
> Source: IGD, Feb 2009

"What is your biggest and second biggest concern over the next 6 months?"



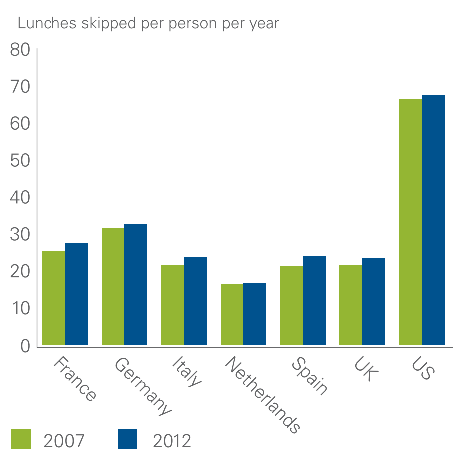
Source: Nielsen - Global Online Survey May 2008

Reasons not to cook from scratch



Source: IGD Consumer Unit, 2009

Number of skipped lunches per person is increasing as people are more accustomed to eat on-the-go or 'graze' throughout the day



Source: Datamonitor

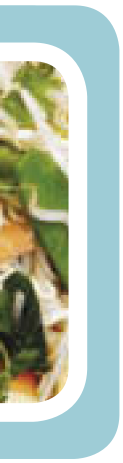
One in three shoppers considers convenience when choosing which food to buy.

Source: Mintel, May 2008

be put together relatively effortlessly, whilst still allowing people to feel they have had some involvement in their meal preparation. Such products, along with use of microwave ovens to speed up the cooking process, have provided invaluable time-saving short-cuts.

Eating short-cuts

With increasing demands on time, meal occasions are now more fragmented. Instead of sitting down to traditional lunches and dinners, people are becoming more accustomed to eating light meals, snacking on-the-go, 'grazing' throughout the day and even skipping meals. Datamonitor estimates that the number of on-the-go light meals is now twice that of regular full meals with afternoon snacks accounting for the highest number of on-the-go occasions.



Whilst in the short term there has been an increase in people making home-made packed lunches to save on costs, for many people the act of planning and preparing food to be eaten out of the home continues to be considered a time-consuming, uninspiring daily chore.

Although people may be spending more cautiously, they are still looking for the convenience and a choice of fresh ready-made options which they can eat quickly whilst out and about, be it in the car, on foot, or in the work environment.

HEALTH

Obesity and obsession

The health mega-trend continues to influence consumer behaviour as a result of major concerns about increasing obesity levels and obesity-related illnesses around the globe.

Media coverage of the obesity crisis is seemingly relentless as is, conversely, what appears to be an obsession with dieting and fitness. Opposing information regarding 'do's' and 'don'ts', alongside busy lifestyles, have created hurdles and confusion for people trying to take care of themselves.

Attitudes to Health and Diet in the UK

I often read the ingredients on food labels	54%
I am prepared to pay more for foods that don't contain artificial additives	47%
I avoid fats	43%
I buy free-range products whenever I can	42%
I avoid sugar	39%
I always choose light food	33%

Source: Mintel, Sept 2008

Back to basics

As a consequence people have become much more aware of 'self-preservation' and are tending to take a more simplistic 'natural' approach to their personal health and food intake, often relying on food producers and retailers to help them make their food choices easier and inherently healthier.

Demand for freshly prepared fruit salads in the UK has increased by 57% over the last 2 years.

Source: Bakkavör

Helping people to take care of themselves 'naturally'

For many years, the fresh prepared foods sector has been one of the most successful in providing naturally healthy convenient meal options. Having a sophisticated chill chain to keep food fresh means that a balance of innately beneficial ingredients such as seeds and nuts, fish, pulses, fruit and vegetables, (clearly labelled with their nutritional content) can be incorporated into convenient meal solutions.

Our aim is to meet and preferably exceed government food guidelines and targets as well as the food policies our customers have in place. This involves, for example, actively reducing or removing salt, sugar and fat content and artificial additives across our categories.

Source: Bakkavör

With increasing pressure on people's incomes, however, there is some fear that people will forfeit their healthy eating regimes and revert back to poor diets. The continued development and supply, therefore, of nutritionally balanced products at affordable prices, alongside clear communication and promotion by the industry will be key in the short term.

PLEASURE

Feel-good foods

The trend towards simple food pleasures in life has not diminished despite economic uncertainty and concerns about the future. In fact, it is quite the opposite with people more inclined to treat themselves and their families to affordable small indulgences to alleviate some of the stresses of their daily lives.

Traditional comfort foods have become particularly popular as people reflect on more 'secure', simplistic times from the past. In fresh prepared foods, for example, authentic old-style dishes such as macaroni cheese and beef lasagne are regular favourites, as well as shared desserts such as cheesecakes, cream cakes and hot sponge puddings.

A quarter of consumers buy premium own-label products as a treat.

Source: Mintel, Sept 2008

Staying in is the new going out

The decision to eat out is being increasingly governed by whether people feel they can justify or afford the added expense. As a result the trend towards informal home entertaining has grown in significance with people looking for home-based, easy to prepare fresh products that are considered to be 'restaurant-quality' and good value for money.

This trend has been particularly noticeable in the US where typically consumers spend half of every dollar on food in restaurants. People however are now tending to cut back on the number of trips to restaurants with the average number of times people eat out decreasing from 1.5 to 1.2 times a week (Source: Sunday Times).

Fresh prepared foods can often fill this gap. In the UK, for example one of the ways in which retailers have been addressing these needs is by introducing extremely successful 'Dine In' options which can include, a choice of fresh prepared main meals, side dishes, desserts and a bottle of wine all for one set price.

> We have produced an additional one million ready meals to meet the demand for 'Meal Deal/Dine In' promotions since they began in July 2008.
> Source: Bakkavör

RESPONSIBILITY

Helping 'healthy' consciences

There is a growing consumer trend towards having a 'healthy' conscience with more and more people wanting to be assured that the foods they buy meet their own ethical and moral standards. Whether a product is free range, locally produced, organic, or environmentally friendly has become a deciding factor in many people's food choices. More recently there has been a growing preference towards Fairtrade products and those which can demonstrate a high standard of animal welfare.

Such products however usually carry a price premium and recent pressures on household budgets has meant that, whilst people still hold these core values dear, some have had to make sacrifices in the short term. For example, in November 2008 Mintel reported that almost half of organic food shoppers in the UK claimed they would reduce or even give up buying organic food in the following year.

The current climate however has not dampened 'responsible' activities such as recycling household packaging and, more recently, actively reducing food waste. In practical terms people are becoming increasingly interested in how food is packaged and taking less of an interest in multi-buy promotions, instead preferring simple price reductions on individual products as there is a growing realisation that wasting food equates to wasted money.

Bakkavör fact – environment

We have:

- Reduced our film usage by 15%
- Reduced the weight of aluminium trays by 10%
- Used sustainable forestry card for the majority of product sleeves
- Introduced lighter packaging across all product sectors
- Revised the weight of products in some of our categories to reduce food waste following consumer research, e.g. in leafy salads

What do these trends mean for Bakkavör?

It means getting the balance right – adopting a flexible approach to meet short- and long-term demand.

Keeping long-term trends in sight

It is important for us to recognise that whilst consumers are under increasing financial pressure they still look for products that satisfy their inherent needs. We strongly believe that these needs continue to be influenced by the four global food mega-trends – convenience, health, pleasure and responsibility – which are deeply ingrained in consumer attitudes and behaviour and will remain so for the long term.

We can not lose sight of the fact that a generation of people has grown up with convenience-led solutions, that people are increasingly more discerning with strong perceptions on quality and there is a global 'awareness' agenda focusing not only on personal health but also on the health of the planet.

Providing affordable solutions

It is imperative in this current climate, that in conjunction with customers, we provide consumers with good quality fresh foods at a price they can afford.

Taking rapid action

Our competitive advantage in this current climate is underpinned by our ability to take action rapidly, making the most of our decentralised structure, just-in-time manufacturing processes, strong customer relationships and efficient NPD (New Product Development) processes.

GLOBAL GROCERY RETAIL TRENDS

Offering value and differentiation around the world

Bakkavör has operations in ten countries and supplies fresh prepared foods and produce to international grocery retailers as well as foodservice providers. Over many years, we have developed strong partnerships with our customers which, coupled with our unrivalled industry expertise, have enabled us to establish firm positions in our target overseas markets whilst maintaining our stronghold in the UK.

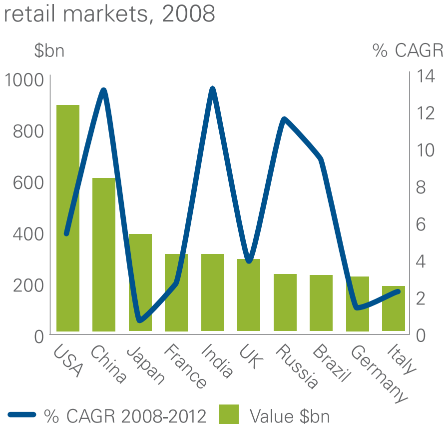
As we primarily develop products which are sold under retailers' own brands it is vital that we know our customers, as well as their consumers, inside out. Here is a snapshot of the latest key developments underpinning today's global grocery retail environment.

Developing and emerging markets are fuelling growth

The three largest grocery retail markets are the US, China, and Japan, and together they account for nearly one third of the world's grocery retail spend. However, according to IGD it is the developing and emerging markets e.g. China, India, Russia and Brazil that continue to fuel the growth of the sector, and this trend is expected to continue going forward.

IGD estimates that the grocery retail markets of China and India will each grow at a compound annual growth rate (CAGR) of 13.2% between 2008 and 2012, outpacing any other country in the top ten. In addition, Russia's grocery retail market is forecast to grow at a CAGR of 11.6% in the next five years.

IGD's top ten global grocery retail markets, 2008



Source: IGD

We have operations in 6 of the top ten largest grocery retail markets.

Source: Bakkavör

A more cautious approach to international retail expansion

In recent years grocery retailers have increased their focus on international expansion, accelerating the pace of grocery retail globalisation. 65% of Tesco's estate, for example, is outside the UK. International expansion by grocery retailers has been motivated by a number of factors including maturity of home markets, limited opportunities for domestic new store developments, and opportunities to capture new customers in emerging markets characterised by rapid economic growth and rising wealth.

In the short term, however, IGD believes that international expansion is likely to be more cautious and more targeted due to the current economic slowdown. Nonetheless, in the long term, global grocery retailers such as Tesco, Wal-Mart, Carrefour and Metro are expected to focus increasingly on emerging market growth opportunities and reduce their dependence on their domestic markets.

We supply 7 of the largest top ten grocery retailers.

Source: Bakkavör

IGD's Grocery Turnover League, 2008 - Top 10

Turnover Rank 2007/2008	Retailer	Country of Origin	Net Sales 07/08 $m	No of countries of operation**
1	Wal-Mart	US	374,526	15
2	Carrefour	France	112,604	31
3	Tesco	UK	94,682	14
4	Metro Group	Germany	88,189	32
5	Kroger	US	70,235	1
6	Costco*	US	64,400	8
7	Lidl & Schwarz	Germany	62,529	24
8	Rewe Group	Germany	61,792	14
9	Aldi	Germany	56,113	17
10	Edeka Group	Germany	51,855	2

Source: IGD
* Cash & Carry
** As of Nov 2008

An increasingly value-conscious consumer

With consumer confidence around the world significantly impacted by the global financial crisis, people have become demonstrably more value-conscious in the last 12 months. On the whole those grocery retailers who have been able to respond rapidly with a strong value proposition have been the most successful in this challenging period.

In France for example, Carrefour launched a new pricing campaign in August 2008

“Prix baissés, bloqués” lowering the prices on 300 products in its stores by as much as 20% and freezing them until the end of 2008. It was also recently announced it will be cutting prices on 10,000 products in its Spanish stores. In the UK, Tesco launched a new discounter range and positioned itself as “Britain’s biggest discounter” to compete alongside discount retailers such as Aldi and Lidl whose prominence has been growing rapidly in the UK market.

Premium UK grocery retailers such as Marks and Spencers and Waitrose have also promoted their value for money credentials. Marks and Spencers introduced their ‘Wise Buys’ initiative and Waitrose has recently launched an ‘Essentials’ budget range.

A multi-format approach

Grocery retailers are adopting a multi-format approach in both their domestic and overseas markets to expand their presence. Increasingly this has tended to involve the launch of smaller, more efficient store formats located in neighbourhood areas. For example, in 2008 Tesco opened its first ‘Tesco Express’ in Shanghai, China and at the beginning of 2009 Carrefour opened its first ‘Carrefour Market’ convenience store in Milan, Italy in order to target consumers looking for a quicker and more modern shopping experience.

The demand for convenience stores has been fuelled in the main by smaller household sizes and higher levels of working women. In addition, higher fuel prices coupled with environmental concerns are generating a greater consumer interest towards locally-based shopping.

Developing and expanding retailer brands

Increasingly grocery retailers have been focusing on developing their retailer branded ranges in order to demonstrate their commitment to provide good value for money and grow consumer awareness of and loyalty towards their ‘brand’.

For example, Wal-Mart is now selling UK subsidiary’s Asda ‘Extra Special’ premium range in its stores in Canada, Mexico and Japan and in 2008 Metro launched several new retailer branded ranges in their German Real stores, offering a 15% price differential versus the leading brand. It now aims to generate up to 25% of its total turnover at Real from its new retailer branded ranges by 2010.

> In order to save money more than 4 in ten consumers buy more own-label value lines, buy own-label products more often or have switched to cheaper brands.
> Source: Mintel, Nov 2008

Rise of the discounter

Hard discounters such as Aldi and Lidl & Schwarz have been and continue to be well-positioned to capitalise on the growing demand for price and value internationally. According to IGD the discount channel is forecast to account for 20% of total grocery spend in Europe by 2012 with share gains achieved through new store developments, (particularly convenience formats) and new retailer branded ranges in fresh and premium foods.

Retailers are reinforcing their ‘green’ credentials

Growing awareness and concern regarding the world’s finite resources have led to a number of environmental and sustainability initiatives being introduced by grocery retailers. Particularly in new store development there has been a greater focus on designing and building stores which consider energy, water, waste and land-use with stores typically constructed out of sustainable materials that use less energy and produce fewer carbon emissions. In the UK, for example, each of the major grocery retailers has opened environmental concept stores over the last year and this ‘green’ focus is becoming a fundamental part of retailers’ strategies.

> A fast changing world requires an increasingly flexible approach.
> Source: IGD, Nov 2008

What do these grocery retail trends mean for Bakkavör?

Demonstrating flexibility to our customers

As a retailer branded supplier we continue to demonstrate our flexibility and commitment to working with our customers to help them achieve their strategic goals. Initiatives, in partnership with our retail customers, reflect many of the retail trends that we have outlined above.

For example, we have developed new product ranges specifically for convenience stores as well as new retailer sub-brands, we take on board specific environmental projects and work with our customers to ensure that we are making the right products for them at the right price points, every time.

Helping customers achieve their strategic goals

We also work with our customers on projects in new geographical markets such as the Czech Republic and China and together with our own geographic investment plans this means we are in a good position to continue to expand with our customers overseas as well as in their domestic markets.

Developing partnerships

Working in this way comes as second nature to us. It reflects the long-term, strategic partnerships we have built with our grocery retail partners over the years and we are committed to maintaining and developing these partnerships in the future.

GLOBAL ECONOMIC TRENDS

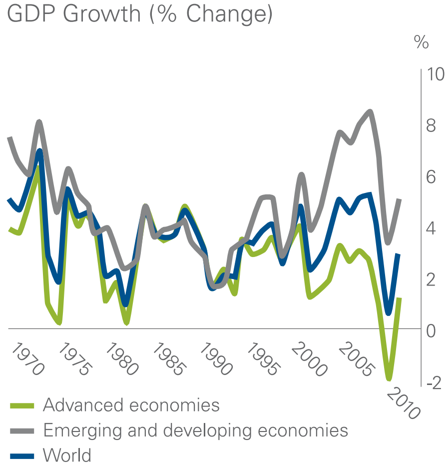
Mitigating the short-term pressures of the global economic downturn

> "The global economy is at a cross-road, moving from a sustained period of very strong developing country-led growth to one of substantial uncertainty as a financial crisis rooted in high-income countries has shaken financial markets worldwide."
>
> World Bank – Global Economic Prospects 2009

Economic turbulence continues

At the time of writing, markets all over the world continue to face the fall-out of the global economic crisis - the insolvency of a large number of banks and financial institutions, plummeting stock market values, steep currency depreciations against the dollar, worsening unemployment and increased risk premiums on a wide range of debt. Given the intensity of the crisis it is expected that financial conditions will remain strained throughout 2009.

GDP Growth (% Change)



Source: IMF

Gross Domestic Product (GDP) affected by disrupted and falling demand

Economic conditions are causing households and businesses to delay or reduce their expenditure, resulting in decreasing demand for consumer and capital goods. At the same time, widespread credit disruptions are also putting constraints on consumers and trading.

According to the International Monetary Fund (IMF) overall global GDP growth is projected to decline to 0.5% in 2009. It is expected to gradually recover with growth picking up to 3% in 2010, although this is still uncertain and will depend heavily on the policy actions being undertaken in the financial sector.

GDP in the advanced economies is expected to retract by 2% in 2009; however, this could rise to 1.1% in 2010 if economic conditions start to gradually improve by the end of this year.

GDP Growth %

			Projections	
	2007	2008	2009	2010
World output	5.2	3.4	0.5	3.0
United States	2.0	1.1	-1.6	-1.6
Germany	2.5	1.3	-2.5	0.1
France	2.2	0.8	-1.9	0.7
Italy	1.5	-0.6	-2.1	-0.1
Spain	3.7	1.2	-1.7	-0.1
UK	3.0	0.7	-2.8	0.2
Central & Eastern Europe	5.4	3.2	-0.4	2.5
China	13.0	9.0	6.7	8.0

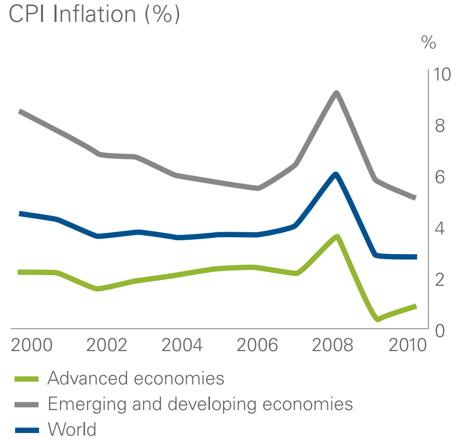
Source: IMF

Similarly, in the emerging and developing economies GDP is expected to slow from 6.25% in 2008 to 3.25% in 2009, impacted by falling export demand, lower commodity prices and much tighter external financial constraints.

High inflation in 2008 impacted the cost of living

The Consumer Price Index (CPI) looks at the average price of consumer goods and services purchased by households. The percentage change in CPI is a measure of inflation and provides a good indication of how economies are performing. Governments' inflation targets are based on the CPI and interest rates are set to meet these targets.

CPI Inflation (%)



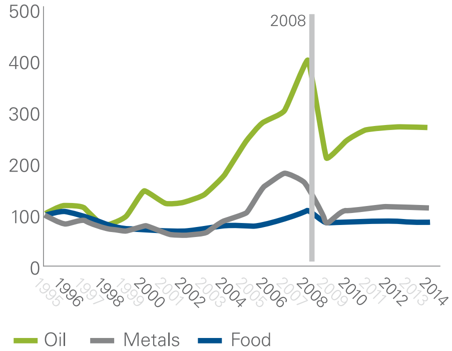
Source: IMF

Since the beginning of 2007 to the end of 2008, CPI inflation has been rising, making the cost of living gradually more expensive.

Since the start of 2009 CPI rates have fallen, largely due to the downward pressure on oil, energy and commodity costs.

According to the IMF headline inflation in the advanced economies is expected to decline from 3.5% in 2008 to a record low of 0.25% in 2009, before edging up to 0.75% in 2010. In emerging and developing economies, inflation is also expected to fall to 5.75% in 2009 and 5% in 2010, down from 9.5% in 2008.

Real Commodity Prices (1995 = 100)



Source: IMF

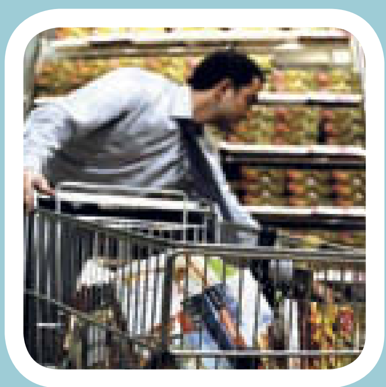
Energy

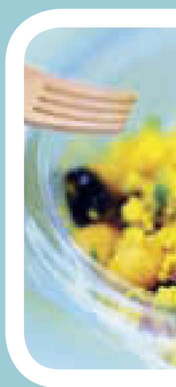
Due to increased global demand for oil, gas and electricity, the cost of energy rose dramatically in 2007. This rise continued into the first half of 2008, with the price of crude oil reaching a peak of $147 per barrel in July 2008. In the second half of the year oil prices subsided mainly due a fall in consumption as a result of the global economic downturn. However there is still great volatility in the market and the impact of high oil prices in 2008 put significant pressure on transport and utility costs for both businesses and households.

Commodity markets easing but still prone to volatility

Over the past 24 months commodity markets have been marked by extraordinary swings in price movements and there has been a growing concern regarding long-term supply and demand prospects.

However, the World Bank reported in its Global Prospects 2009 that whilst commodity prices will remain higher than they were during the 1990s, they will ease in the short term. Looking further ahead, long-term demand is not expected to outstrip supply, income per capita in developing countries is expected to continue rising rapidly and population growth (along with GDP growth) is slowing. As a result the Bank believes that this should ease the pace of commodity demand.





Biofuels

In the past, food-based demand for agricultural crops has been relatively stable; however, focus on biofuels production from food crops (specifically maize) has altered the balance of demand. An increased demand for biofuels has led to land traditionally being used for soybean and wheat production being switched to maize production which has caused a negative impact on the price of soybean and wheat-based products. This has been further compounded by the damaging effect of adverse weather on crops coupled with the high price of oil.

Food inflation

Price volatility in commodity markets has resulted in food price inflation being a major concern in both the advanced and developing economies over the past 24 months. In the UK, for example, food inflation for the twelve months to December 2008 hit 11.9%. (Source: BBC). Commodities such as vegetables, wheat, meat, poultry, butter, cheese and other dairy products were particularly affected by price rises. There are signs that food inflation is easing but the short-term outlook remains cautious in view of the global economic uncertainty.

Unemployment rising

The global economic crisis has resulted in increasing levels of unemployment as businesses reduce costs to survive such challenging conditions.

The International Labour Organisation has reported that unemployment could rise by between 18 million and 30 million this year, and as much as 50 million if the world economy continues to deteriorate. In its worst-case scenario, global unemployment, which stood at 179 million in 2007, could rise to 230 million.

Interest rates cut to stimulate economies

Following a period of rising interest rates during 2007, interest rates started to drop at the beginning of 2008, falling substantially in the latter half of the year and the beginning of 2009 in a move to stimulate economies by improving market liquidity and consumer confidence.

Currency fluctuations affect purchasing costs

The global economic downturn has led to significant changes in the exchange rates of some countries. For example, whilst the British pound, the Australian dollar and the South Korean won have weakened dramatically, the Japanese yen and the Swiss franc have reached extreme highs. Such currency fluctuations across the world have made it much more difficult for businesses to manage purchasing costs. In the UK for example, businesses importing raw materials from the US and Europe have suffered increased costs due to the strength of the dollar and the euro.

Economic Comparatives by Country

Country	% Unemployment Rate	% Interest rate	% Inflation
UK	6.1	0.5	3.0
Belgium	7.2	1.5	1.9
Netherlands	3.9	1.5	2.0
France	8.3	1.5	0.9
Germany	7.9	1.5	1.0
Spain	14.8	1.5	0.7
Italy	6.7	1.5	1.6
China	4.0	5.3	-1.6
US	8.1	0.25	0.2
Czech Republic	7.4	1.75	2.0

Source: www.tradingeconomics.com (as of end of March 2009)

What do these economic trends mean for Bakkavör?

Like most other businesses, the impact of the economic crisis has affected Bakkavör Group at many levels – from the inflationary pressures on commodities and depressed consumer demand due to financial constraints on household budgets through to the decrease in share price owing to the turbulence in the financial markets which impacted the availability and cost of credit (see page 39 of the Shareholder Review).

Committed to mitigating pressures

The Group remains committed to mitigate these economic pressures as effectively as possible. In 2008, we implemented initiatives to improve energy, fuel and transport efficiencies and reviewed operational work practices to offset rising costs.

Recovering inflationary costs

Inflationary costs were recovered wherever possible and the Group continues to make good progress in this area through revising price agreements with customers and suppliers, consolidating our supplier base, simplifying the supply chain and maximising the Group's global economies of scale to source ingredients.

Focused on our business priority

Our decentralised structure and ability to take actions quickly is a competitive advantage and means that we have been able to lessen the impact of short-term pressures. Nonetheless, in 2008 we still incurred a total cost inflation of £30m which affected our short-term profitability and we will continue to treat mitigating inflationary pressures as a priority in order to generate savings and create value for the business.

Right products every time for every budget

Breakfast
Lunch
Snacks
Dinner
Dessert

Over 6,000 products

From top of the range to the budget conscious

Our innovative culture and 'joined up' approach to new product development underpin our ability to make products successfully and rapidly that fulfil changing consumer needs. We supply a portfolio of over 6,000 products across 18 fresh prepared food categories and a variety of fresh produce categories which means we can cater for just about every meal occasion and budget.

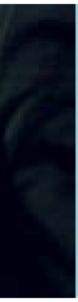
INNOVATION

Focused teams working together

At Bakkavör we believe everyone can be creative, and we encourage our teams to work together throughout the new product development process. This enables us to create the right products with efficiency.

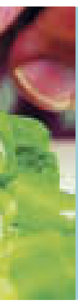
Marketing: Consumer focus

Our marketing teams see food through 'the eyes of the consumer'. They understand consumer trends, how these trends influence our markets and share this knowledge across the business and with our customers.



Commercial: Sales focus

Our commercial teams manage product categories and maximise product success through pricing and promotion programmes, ensuring that the shelf space given to a product delivers a return to our customers and our business.

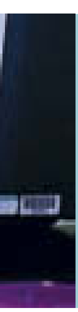


Development: Product & Customer focus

Our development teams use the consumer information from our marketing teams and our chef-inspired product ideas and turn them into commercially viable products that our manufacturing operations can make efficiently and consistently to a high standard.

Chef: Product focus

Our development chefs have a real passion and enthusiam for food which they instil into the business to achieve a high level of culinary excellence. They share their knowledge of food trends and culinary expertise with the development teams and other functions within the business.



Technical: Safety focus

Our technical teams provide specialist knowledge to enable the business to maximise operational efficiencies whilst ensuring that the highest standards of food safety, quality and legality are met.

Manufacturing: Operational focus

Our manufacturing teams have the skills to translate internal and external customer needs into workable manufacturing processes and high quality products. By adopting a 'can do' approach they ensure new product opportunities are realised efficiently.

Successful innovation can only come from teams of people with different skills working together towards a common goal.

Product Success

DIVERSE PRODUCT PORTFOLIO

Our fresh prepared products can be split roughly into two categories: hot-eating and cold-eating. Hot-eating products are those which need to be cooked or heated. Cold-eating products are those which are ready to eat or need minimal preparation.

We also market fresh produce such as lettuce, cucumbers, tomatoes, peppers and a variety of fruit, particularly speciality ranges.

HOT-EATING

Ready meals
Ready to cook meals
Fresh pizza
Soups
Sauces
Stir fries
Ethnic snacks
Prepared vegetables
Speciality bread

COLD-EATING

Leafy salads
Dressed salads
Meal salads
Dips
Desserts
Prepared fruit
Salad dressings
Sandwiches & wraps
Smoothies

PRODUCE

Trio leaf lettuce
Whole cucumbers
Piccolo tomatoes
Sweet potatoes
Butternut squash
Sweet pointed peppers
Watermelon
Braeburn Apples
Peaches
Tenderstem broccoli
Sugarsnap peas
and more...

OUR BUSINESS

We employ over 19,000 hard-working people in 10 countries who share a common goal – to manufacture and supply world-class fresh prepared foods and produce to the global marketplace. Our ability to achieve this goal is underpinned by well-invested factories, a strong, experienced leadership team and long-standing customer relationships.

Real assets
of our business

63 operations in 10 countries

Unrivalled industry expertise

3 million ready meals made every week

BOARD OF DIRECTORS

Managing the future of our business

Lýdur Gudmundsson
Non-executive Chairman
Member of Compensation Committee

Born: 1967
Nationality: Icelandic
Principal occupation: Executive Chairman, Exista hf.
Professional background: Founder of Bakkavör Group in 1986, Chief Executive Officer 1986 - May 2006. Executive Chairman of Exista hf. from May 2006
First elected to the Board: 1986
Education: The Commercial College of Iceland
Other activities and functions: Chairman of the Board of Skipti and member of the Board of the Iceland Chamber of Commerce

Ágúst Gudmundsson
Chief Executive Officer

Born: 1964
Nationality: Icelandic
Principal occupation: Chief Executive Officer, Bakkavör Group
Professional background: Founder of Bakkavör Group in 1986, Executive Chairman 1986 - May 2006 and Chief Executive Officer from May 2006
First elected to the Board: 1986
Education: College of Armuli, Iceland
Other activities and functions: Member of the Board of Exista hf., Fram Foods hf. and Icelandic Mountain Guides

Antonios P. Yerolemou*
Non-executive Director
Vice Chairman of the Board of Directors
Member of Compensation Committee

Born: 1942
Nationality: British
Principal occupation: Non-executive Director of a number of companies
Professional background: Chief Executive Officer of Katsouris Fresh Foods (KFF) 1982-2002. Executive Chairman of KFF 2002-2005
First elected to the Board: 2001
Education: Primarily educated in Cyprus further to studying Business Administration in London

Ásgeir Thoroddsen
Non-executive Director
Chairman of Audit and Compensation Committees

Born: 1942
Nationality: Icelandic
Principal occupation: Attorney to the Supreme Court of Iceland
Professional background: Lawyer and partner in a Reykjavik law firm since 1977
First elected to the Board: 2000
Education: Cand. juris from University of Iceland and a degree in Public Administration from New York University
Other activities and functions: Chairman of Intrum Iceland hf., Vátryggingafélag Íslands, Líftryggingafélag Íslands and Lýsing hf

* In February 2009 Antonios P. Yerolemou and Panikos J. Katsouris resigned as non-executive Directors of the Board of Bakkavör Group. Their resignations took effect as of 25 February 2009.

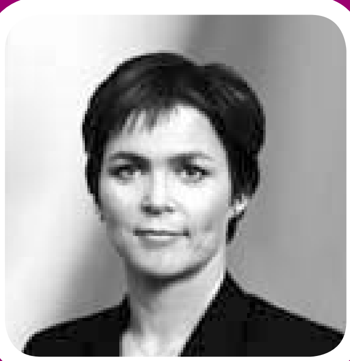
The financial year ahead

- Regular Board meetings every quarter
- Management Board meetings

Born: 1959
Nationality: British
Principal occupation: Managing Director of Laurens Patisseries Ltd.
Professional background: Joined the family frozen food business, Fleur De Lys Patisseries Ltd., in 1978, Managing Director 1985-1992 (the company having been acquired by Grand Metropolitan in 1987). Founded Laurens Patisseries Ltd in 1992 – acquired by Bakkavör Group in 2006. Managing Director of Laurens Patisseries from 1992 to present
First elected to the Board: 2007
Education: 8 O Levels and OND Business Studies
Other activities and functions: Director of Liveras Yachts

Dion Liveras
Executive Director

Born: 1966
Nationality: Icelandic
Principal occupation: State Authorised Public Accountant
Professional background: State Authorised Public Accountant at KPMG from 1990, Partner from 1997. CFO of Bakkavör Group 2004 - February 2008.
First elected to the Board: 2008
Education: Cand Oecon Business Administration from the University of Iceland and a State Authorised Public Accountant as of 1995
Other activities and functions: Member of the Board of various trade bodies and organisations, e.g. the Iceland Chamber of Commerce, Finnish Icelandic Chamber of Commerce, Exista hf., Skipti hf., Lýsing hf., Vátryggingafélag Íslands hf. and Fram Foods hf.
Extensive experience as auditor in the financial sector and CFO in the manufacturing sector. Entrusted with various roles for the Institute of the State Authorised Public Accountants

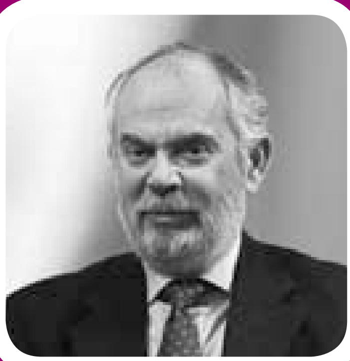


Hildur Árnadóttir
Non–executive Director
Member of Audit Committee
Member of Compensation Committee

Born: 1962
Nationality: Icelandic
Principal occupation: Managing Director of Lýsi hf.
Professional background: Extensive management experience in various companies and industrial sectors, such as seafood, commerce and real estate.
First elected to the Board: 2007
Education: Diploma in Industrial Management from the Technical University of Iceland (now Reykjavik University)
Other activities and functions: Member of the Board of the Iceland Chamber of Commerce, Reykjavik University, Trade Council of Iceland, the Icelandic Association of Women Entrepreneurs, Hnotskurn ehf, and Hydrol ehf. Substitute Board member of Lýsi hf.

Katrín Pétursdóttir
Non-executive Director
Member of Audit Committee

Born: 1950
Nationality: British
Principal occupation: Chief Executive Officer of Katsouris Brothers Ltd.
Professional background: Finance Director of Katsouris Fresh Foods 1982-2002
First elected to the Board: 2001
Education: BSc Economics
Other activities and functions: Member of the Board of Skipti



Panikos J. Katsouris*
Non-executive Director
Chairman of Audit Committee

OCTOBER
Q3 29/10
2010
FEBRUARY
Q4 4/2

KEY MANAGEMENT TEAM
Unrivalled industry expertise

Our Key Management team shares over 200 years of experience in the food industry. This extensive knowledge is paramount to the successful running of the business and to achieving our goal to be recognised and respected as the world's leading fresh prepared foods and produce provider.

Length of service within Group:
22 years
Nationality: Icelandic
Professional background: Founder of Bakkavör Group in 1986, Executive Chairman 1986 – May 2006 and Chief Executive Officer from May 2006
Education: College of Ármúli in Reykjavik, Iceland.

Ágúst Gudmundsson
Chief Executive Officer,
Bakkavör Group

Length of service within Group:
10 years
Nationality: British
Professional background: Qualified as a Chartered Accountant before moving into Corporate Finance with Dresdner Kleinwort Benson. Joined Geest in 1999 as Corporate Finance Manager and worked in various finance roles within the Group between 1999 and 2006. Served as Group Finance Director between 2006 and 2008. Chief Financial Officer of the Group as of March 2008
Education: BSc (Hons) in Geography, qualified Accountant

Richard Howes
Chief Financial Officer,
Bakkavör Group

Length of service within Group:
40 years
Nationality: British
Education and professional background: Joined Geest in 1969 in the Horticulture division. Spent 10 years in produce businesses before moving into prepared produce and prepared food businesses in the late 1990s

Gordon Pates
Managing Director,
Bakkavör Group

Length of service within Group:
10 years
Nationality: British
Professional background: A variety of roles, spanning 30 years, in technical and research and development departments (with a brief spell in manufacturing), for Cooperative Wholesale Society (CWS) Northern Foods and Geest
Education: Studied at the Open University. Post Graduate Diploma in Management Studies

Ann Savage
Group Technical Director,
Bakkavör Group

"Over 200 years of food industry experience"

Length of service within Group: 6 years
Nationality: British
Professional background: Various food manufacturing roles, spanning over 30 years with Mars, Pepsi, St. Ivel and Geest from 2003
Education: Chartered Electrical Engineer and MBA

Chris Thomas
Managing Director,
Bakkavör Group

Length of service within Group: 34 years
Nationality: British
Professional background: Joined Geest as a Technologist in 1975 and has worked in various roles within the produce division.
Education: BSc (Hons) in Horticulture

Brian Walton
Managing Director,
Bakkavör Group

Length of service within Group: 17 years
Nationality: British
Professional background: Has worked in the fresh foods industry for over 25 years, having acquired, established and managed many businesses in the UK and across continental Europe
Education: BSc (Hons) PhD in Biochemistry

John Edward Dutton
President,
Bakkavör USA Inc.

Length of service within Group: 4 years
Nationality: Icelandic
Professional background: Turned around two businesses in the seafood industry after spending initial career at Deloitte Consulting
Education: Graduate in BSc Business Administration and MBA

Einar Gústafsson
Managing Director,
Bakkavör Asia

OUR RESPONSIBILITY

Focusing on sustainability

At Bakkavör Group our aim is to provide the very best quality, service, value and innovation in our fresh prepared foods and produce markets whilst increasing the sustainable value of our business for our shareholders. We believe this cannot be attained unless we take a responsible approach, setting ourselves high standards in all that we do. We continue to concentrate on our three key identified areas of focus:

- The place to work
- The partner of choice
- Caring for our community

In this section we share with you how we have progressed in the above areas. We start with a reminder of the Group's cornerstones and values, which influence the way we do business.

Our cornerstones

Our cornerstones of Quality, Service, Value and Innovation are crucial to the way we run our business and form an integral part of all that we do. They allow and encourage our people to be proud of what they do, benefiting the business and all who deal with us.

Quality

The quality of our products and service is paramount. At each site product quality at different stages of the process is carefully monitored against strict specifications. We aim to guarantee that our products are delivered to a high standard to our customers at all times.

Our relationships with our customers are based on trust and integrity. We maintain close relationships with them and aim to fully understand their requirements so that we can develop, manufacture and supply innovative products that meet their needs as well as those of their own customers. Our goal is to deliver what they want and, ideally, a little bit more than they expected.

Service

Our culture is highly service-oriented and we strive to exceed our customers' expectations at all times. To deliver products to our customers on time every day necessitates detailed planning and scheduling. Experts in our planning, purchasing and logistics teams work hard to ensure everything runs like clockwork in our demanding 'just in time' environment. This involves working closely with our suppliers to ensure we have a constant source of the right quantity and quality of ingredients, and with our customers to ensure accurate forecasting, optimal manufacturing, scheduling and planning throughout every stage of the supply chain.

Value

Delivering value to our customers is about developing and launching the right products that deliver a return on investment – a product is only successful if consumers want to buy it. We bring together expertise across the business – development, technical, marketing, manufacturing and commercial teams – so that we develop the right products which we know we can manufacture efficiently at a commercial cost that reflects the strategic position of our customers.

Innovation

We operate within the dynamic sector of fresh prepared foods. Innovation encourages market growth and, as a leading provider in the sector, we pride ourselves on being at the forefront of food trends, enabling us to confidently recommend to our customers new product ideas that meet the evolving needs of their own customers. However, innovation for us also means generating a culture of flexibility and innovative thought, encouraging people to thrive on challenges, to think 'outside the box' and to grow and improve our business.

Our values

Our five core values - Customer care, A 'can-do' attitude, Teamwork, Innovation and Efficiency - epitomise the way in which we want to be known for doing business. To ensure they are being lived within the Group our people are recruited, rewarded and appraised against them. Please find a more detailed information on our values on page 6.

The place to work

Bakkavör Group has grown rapidly in the last few years. We have operations in ten different countries and employ over 19,000 people. We have a responsibility to provide a safe working environment for them and a rewarding environment in which to work.

Health and Safety

Our aim is to ensure that every employee within the Group works in a safe environment and their health is not adversely affected by the work they carry out.

Health and Safety is at the forefront of our working practices. Our Group Technical Director, who sits on the Group's Management Board, is responsible for Health and Safety management across the Group and reports monthly on Health and Safety Key Performance Indicators (KPIs) agreed by the Management Board. KPIs include accidents per 100,000 employees and the status of any enforcement and improvement notices. The Group's accident figures remained relatively unchanged from the previous year in 2008, despite various efforts to bring them down. We are however pleased to report that the Group's performance was 40% better than the industry average.

Our goal is to continuously improve our Health and Safety performance and we strive to achieve this through improved communication networks and training. We provide extensive Health and Safety training as part of our induction programme as well as periodic refreshment training. We also appoint Health and Safety representatives at each site who are responsible for reporting to the site's executive management team as well as putting into action the site-specific Health and Safety plans. Our Group Technical Director holds an annual Health, Safety and Environmental Conference which provides a forum for Group-wide communication and a networking platform for our Safety experts.

Contractors are not always familiar with our premises, procedures and the products we make. In 2008 we introduced a new Contractor Induction process to improve the way we manage risks to our people, products and consumers.

Source: Bakkavör

In 2008 the Group appointed a Corporate Social Responsibility (CSR) Manager to focus on continuous improvement in Health and Safety (amongst other areas), working with the Group's Health and Safety Steering Group and Action Team. Focused Health and Safety audits were introduced in 2007 and learnings from these continue to be used to refine safety improvement plans which then are shared across the Group and incorporated into our best practice systems and procedures.

During the year a number of initiatives have been implemented, including:

- the roll out of a behavioural Health and Safety training course to a number of sites
- the introduction of a Health and Safety quarterly newsletter to communicate and share best practice
- the launch of a new and improved Health and Safety intranet which provides access to manuals, policies and procedures and a facility for users to share best practice.

Our employees

Our culture is underpinned by our core values and we place great emphasis on encouraging personal initiative and giving people the support and confidence to 'have a go' even when the outcome is uncertain. This provides our people with the opportunity to fulfil their potential and generates an environment where innovation and change is encouraged to improve the business. We believe this is of great importance for the future success of the Group as we continue to strengthen our position in the global marketplace.

Training and development

At Bakkavör our 'can-do' culture encourages our employees to take initiatives and empowers them to make things happen. Our approach is informal due to the decentralised structure of the Group and we tend to attract self-starters who thrive in such an environment. We place great emphasis on encouraging employees to enhance their personal development and careers within the business and aim to support them in doing so through both our established appraisal and self development system, and our functional and professional training and development programmes. This allows our people to be recognised, rewarded and promoted fairly.

Recruitment

Our aim is to attract and retain bright and talented people, with the vision and values that match those of the company. The Group runs a bespoke fast-track programme, the Accelerated Management Scheme (AMS) which provides current employees and new graduates with an opportunity to gain hands-on experience

in real jobs within the Group, alongside supportive training and mentoring. The Scheme provides participants with the option of specialising in one of the six core areas of strategic importance to the business: Manufacturing, Product Development, Technical (Food Safety), Produce (Procurement), Purchasing and Finance.

Retention

During 2008 we restructured parts of the business, which necessitated factory closures, as part of our ongoing efficiency plans. Such action is always unsettling for our employees. Our permanent employee resignation turnover was around 19% in the year and within our internal target.

Communication (SEFs and GEFs)

With a business as large as Bakkavör it is essential that we provide people with a platform to be able to discuss their views and share learnings and ideas openly and constructively. We encourage our employees to do this through Site Employee Forums (SEFs) and the Group Employee Forum (GEF) where employees and management can discuss matters such as financial performance, employee relations, Health and Safety and Group-wide initiatives.

Our SEFs are held regularly in all of our businesses and are made up of employee representatives from designated areas of the site, as well as the relevant Human Resources Manager and member of the

local senior management team. The elected SEF members also play a significant social role at their sites, arranging functions and entertainment for their colleagues, encouraging participation in community initiatives and fund raising.

Our annual GEF takes place around springtime every year. Each business unit sends a nominated SEF member to represent its site at the Forum. The GEF provides a platform for discussion on topics affecting the whole Group, with particular focus on employee matters. At the GEF we recognise our best SEFs and individual Employee Representatives with awards for their dedication during the year. The next GEF takes place in May 2009.

Diversity

We have operations in ten different countries and are extremely proud of our diverse multi-cultural workforce.

It is our responsibility to ensure we help our people integrate into the Group wherever we can. In the UK alone over 40 different languages are spoken across the Group's sites and we provide training in a number of different languages, including Tamil, Polish and Portuguese. We offer English training to both native and non-native speakers, which benefits employees in their working environment and everyday lives.

At a number of our sites, we continue to offer diversity training courses, allowing employees to gain further understanding of different cultures, habits and beliefs. We continue to work with a number of food suppliers to maintain a cultural database to aid a better understanding of the differences between cultures within our Group and manage diversity in a positive way.

The partner of choice

We aim to be 'the partner of choice' for all who deal with us, whether customers, suppliers, shareholders or other parties.

Our customers

Our main customers are major grocery retailers. We also make products for private foodservice operators and the public service sector.

Two-way partnership

The majority of the products we make are sold under our customers' brand names. They entrust us to maintain and protect their brand and in return we are committed to providing an exceptional service to them. It is essential that we work closely with our customers to understand their corporate needs as well as those of their customers so that we can supply outstanding quality, value and service – with the aim of delivering 'right first time'.

Amongst the measures we use, there are established Food Safety KPIs which are reported to and reviewed by the Management Board on a monthly basis. In addition we also agree individual technical service levels with our customers and, where appropriate, we work closely with them to ensure that all issues are investigated, dealt with quickly and relevant actions taken to stop re-occurrence.

Our suppliers

Forging long-term supplier relationships

Over the years we have built many strong and mutually beneficial relationships with a number of suppliers. The criteria for the selection of our suppliers include the ability to meet our long-term needs by demonstrating technical excellence, financial strength, efficiency and the capability of developing a long-term partnership. In return, we provide them with development briefs and long-term account plans from which both can measure their success. In today's challenging trading environment such relationships with suppliers have continued to be invaluable in helping to offset some of the impact of raw material costs. We believe our relationships with long-term strategic suppliers underpin not only our future success, but theirs too.

Ethical Trading

We require our suppliers to comply with all local and national laws, in the areas of working hours and conditions, Health and Safety, rates of pay, terms of employment and minimum age of employment.

The Group supports the United Nations' Universal Declaration of Human Rights and the core conventions of the International Labour Organisation. We ask our suppliers to become members of SEDEX, a web-based tool enabling retailer and suppliers to maintain and share online data on labour standards throughout the supply chain.

From time to time we carry out ethical audits on our suppliers based on risk-assessment and customer input.

As previously reported, since the end of 2006 temporary labour providers in the UK have been obliged to obtain a Gangmasters Licence in order to operate legally in the agriculture, food processing and packaging sectors. We continue to work closely with a selected group of temporary labour providers to ensure the necessary licences are in place. All our temporary workers in the UK are subject to UK legislation.

Our shareholders

Our primary goal is to increase long-term shareholder value. Recently economic circumstances have proved challenging. However we remain committed to communicating openly with our shareholders in as consistent and detailed manner as is commercially sensible. For more information please turn to page 39.

Caring for our community

We aim to be a good 'neighbour' which involves taking responsibility for the environmental and social impact that our manufacturing operations have on their immediate surroundings.

Our environment

We are committed to managing and reducing the environmental impact of our day-to-day operations by continually investigating and employing initiatives across the Group in areas where we have direct control. Where possible we also look to influence our indirect impact (e.g. that of our suppliers and customers).

Reporting and management

The overall responsibility for Environmental management falls under the Group Technical Director with day-to-day responsibility falling to the Group's CSR Manager, whom we appointed in 2008.

The CSR Manager works closely with the Group's Environmental Steering Group (ESG) that meets quarterly. Along with site-based Environmental Action teams the Steering Group is focused on reducing our environment impacts, and assuring the ongoing sustainability of our business. In addition, the Group Technical Director holds an annual UK Environmental Conference which provides a platform to share knowledge and best practice across our operations.

In recognition of the hard work the sites carry out to reduce their environmental impact we will again be rewarding one of our sites the Group Environmental Award for its contribution at the GEF in May 2009 (see Our Neighbourhood, page 38).

Environmental priorities

Following the annual review of our policy in 2008 our main environmental impacts and priorities were identified as:

- Energy
- Water and waste water
- Waste
- Packaging
- Transport

Working in collaboration with our customers and key suppliers, detailed policies and strategies have been developed for each of these key areas. Our approach focuses on the optimisation of existing processes and practices to deliver environmental and resource efficiency benefits,together with the piloting of new processes and practices to deliver step change improvements to the future good our business.

Bakkavör initiative - water

Through actively monitoring water use and introducing a leak detection and reduction programme, Bakkavör Pizza in Harrow reduced it's water usage by 9.7% and it's water footprint by 21.6% in 2008.

As a manufacturer of fresh prepared foods, the freshness and safety of our products is paramount. As a consequence the majority of the electricity we use is invested in the refrigeration of our ingredients and products. Across the Group, sites have been maximising the efficiency of existing refrigeration systems. Work is in progress to assess the next generation of refrigeration systems to make step change reductions in energy use and our impact on the environment.

Various initiatives to reduce the amount of waste we generate and send to landfill are being conducted throughout the Group.

Bakkavör initiative – waste

At Bakkavör Spalding, one of our sites in Lincolnshire, the total amount of waste recycled has improved from 30% to 66% over three years, saving around 4,500 tonnes annually going to landfill.

Our Bakkavör Spalding site has made significant progress in reducing waste going to landfill and has started a pilot project to send waste food to an Anaerobic Digestion plant. This environmentally-friendly waste treatment process generates both renewable energy and a natural fertiliser as by-products. The trial which started in 2008 has already reduced the amount of food waste sent to landfill by 270 tonnes and carbon emissions by an estimated 250 tonnes. We aim to roll out this initiative to other sites in 2009.

Bakkavör initiative – transport

Our logistics team has reduced road miles associated with the delivery of raw materials to our sites by around 350,000 miles in 2008. This has avoided approximately 500 tonnes of carbon being emitted to atmosphere through the improved efficiency in this area. In 2009 the team will continue to roll out this initiative across the Group.

Customers

We are committed to working with our customers to ensure we adhere to requirements relating to specific environmental initiatives detailed in their Corporate Responsibility agendas. For example we continue to work closely with our customers to reduce the amount of packaging we use, improve environmental on-pack information and reduce energy consumption.

Our neighbourhood

In order to be a good 'neighbour' in all the communities in which we operate we encourage our businesses to become involved in local initiatives and support good causes.

Good Neighbour Awards

At the annual GEF each spring Good Neighbour Awards are awarded to sites that have made positive impacts in their local communities and successfully recognised neighbourhood issues as part of their business plans. The prize money is re-invested in local community or site projects. Last year the 1st prize went to Isleport Foods with Bakkavör Spalding and Bourne Salads sharing the 2nd place.

At the annual GEF we also award the Group Environmental Award to a site that has introduced or engaged successfully in key envionmental initiatives such as reducing energy usage, water or waste. Last year the Environmental Award went to Bakkavör Pizza in Holbeach, with Caledonian Produce as the runner up. This year we will also be awarding a "Best Newcomer Award" to a site that has not submitted an entry before.

Other sponsorships

We continue to sponsor other projects and initiatives across the Group. In Iceland where our head office is based we continue to sponsor entrepreneurial studies at the University of Iceland and the University of Reykjavik, alongside other charities, sports and educational projects.

We also continued to support the UK charity Action Medical Research (AMR) in 2008.

As an Action Partner we continued to support the charity financially as well as encourage employees to raise funds and take part in AMR events and initiatives, both at site and Group level. For example, we sponsored ten employees from various sites to take on the Inca Trail to Machu Picchu in Peru. Our group of ten did extremely well, raising over £35,000 for the AMR´s Touching Tiny Lives campaign.

Being a Good Neighbour

Through our Good Neighbour Awards we encourage our sites to support local causes and initiatives in the communities in which they operate. We find though that they need little or no encouragement from us! For example, our Isleport Foods site based in Somerset actively sponsors and supports causes that are within 10 miles of the site, receive little or no funding and focus on local children and/or adults. In 2008 their chosen causes included funding the local stroke club, the lymphoedema clinic, benches for a local school and jackets for NHS volunteer bike riders (Freewheelers).

Another of our sites, Bourne Salads in Lincolnshire, runs a work related learning experience programme for students of a local grammar school. It also organises and funds an annual family fun day for the town and donates prepared salads and fruit to local schools.

SHAREHOLDERS AND INVESTOR RELATIONS

Focusing on long-term shareholder value

Bakkavör Group's primary goal is to increase the long-term shareholder value. The Group has been listed on the NASDAQ OMX Nordic Exchange in Iceland since 2000 with the ticker BAKK.

Shareholder report

The NASDAQ OMX Nordic Exchange in Iceland

The Iceland Stock Exchange became a part of the largest stock exchange in the world, NASDAQ OMX, in early 2008 when NASDAQ and the OMX Nordic Exchange, of which the Iceland Stock Exchange had been a constituent member, merged. Accordingly, listed Icelandic companies are now part of the NASDAQ OMX in Iceland and included in the NASDAQ OMX Nordic index, a family comprising the exchanges in Stockholm, Copenhagen, Reykjavik, Helsinki, Tallin, Riga and Vilnius.

Following the merger, the position of global exchange operations was strengthened, international visibility of listed Icelandic companies increased and international investors were provided with better access to the Icelandic market. Through NASDAQ OMX Iceland, common NASDAQ OMX listing requirements apply along with common member rules and indices. The NASDAQ OMX Nordic Exchange uses a common standard for industry classification of listed companies (GICS), which facilitates reliable comparisons between industries and countries. Bakkavör Group is classified in the Consumer staples sector and is a Mid Cap company. For further information on NASDAQ OMX Iceland, see www.nasdaqomxnordic.com.

Share performance

Turmoil in international financials markets throughout 2008 and the events in the Icelandic economy in early October 2008 had a significant effect on the Icelandic equity market and, consequently, Bakkavör shares. The three largest banks in Iceland, Kaupthing, Landsbanki and Glitnir (now Islandsbanki), were nationalised and trading of all stocks on the NASDAQ OMX Iceland was suspended for three days. The market capitalisation of Icelandic companies, which was around 120% of Iceland's GDP before the crash, fell to around 30% of GDP at that time.

During the year, Bakkavör Group's share price decreased by 96% while the Icelandic main index, OMXI15 fell by 94%. Bakkavör Group's market capitalisation at year-end 2008 amounted to ISK 5.4 billion.

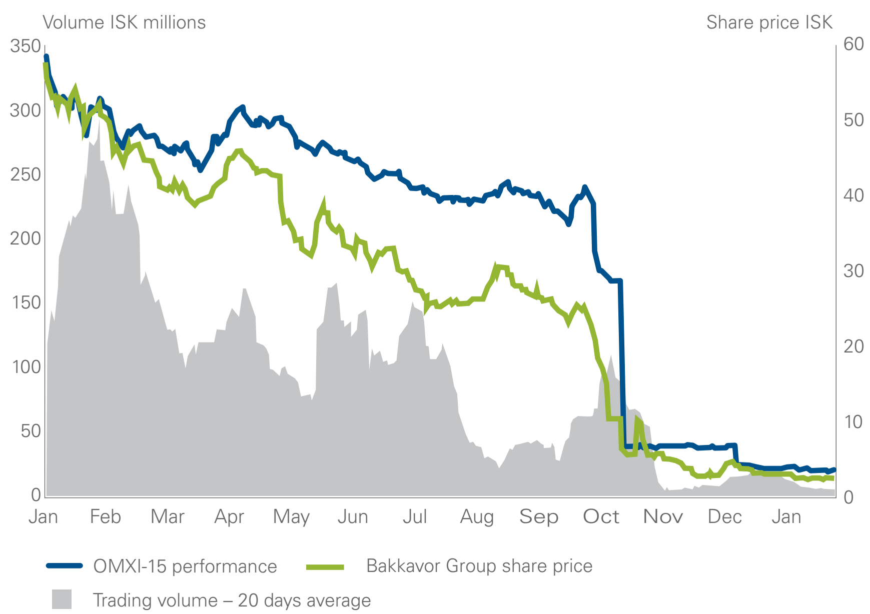
Share capital

The registered share capital of Bakkavör Group is ISK 2,157,888,219 at nominal value. All issued share capital in the Group is listed on the NASDAQ OMX Nordic Exchange in Iceland. Each share represents one vote.

Liquidity of shares

Shares in Bakkavör Group were traded 4,583 times in 2008 for a total market value of ISK 23 billion, compared to ISK 69 billion in 2007. This corresponds to a turnover of 35% in 2008, compared with a turnover of 52.9% in 2007. The average spread of the Group's shares during the year was 1.6%.

Bakkavör Group share price performance in 2008



Shareholders

At year-end 2008, 3,011 shareholders in Bakkavör Group were recorded on the shareholder register, compared with 3,851 shareholders at year-end 2007. Exista B.V. was the largest shareholder of Bakkavör Group, with 39.6% of the total share capital at year-end 2008.

In October 2008, ELL 182 ehf., a company wholly owned by the Group's CEO Águst Gudmundsson and the Chairman Lýður Gudmundsson, made an offer to acquire Exista BV's shares in Bakkavör Group. The transaction is subject to Bakkavör's lenders' approval.

With 13.2%, the founders and former owners of Katsouris Fresh Foods controlled the second-largest portion of shares and the previous owners of Laurens Patisseries Limited controlled 3.7% of shares at the end of the year. Bakkavör Group employees and other Board members held another 0.3% of the shares in total at year-end. Institutional investors held 27.9% of shares and private investors 12.9% of shares at the end of the year.

Dividends and dividend policy

Dividends are decided each year at the Group's Annual General Meeting. The Annual General Meeting of Bakkavör Group held on 14 March 2008, resolved to pay a dividend to shareholders which corresponded to ISK 0.55 per share or 55% of issued share capital. Dividends were paid on 15 April 2008. The Board of Directors will recommend at the Group's Annual General Meeting on 20 May 2009 that no dividends be paid out for the year 2009. This decision is based on the fact that following significant investment and expansion in recent years, the Board of Directors believes it prudent to retain cash within the business to reduce indebtedness.

Responsibilities to our shareholders

The Board of Directors fully appreciates that our shareholders are the owners of the Group and that its duty is to act in their best interest. The Board seeks to protect shareholder investments by ensuring that effective risk management policies are in place across the Group. These policies are reviewed and approved formally each year by the Board. More information on the Group's risk management approach can be found on page 42.

In addition, procedures are in place to help ensure that Company information is disseminated promptly and without prejudice.

Employee shareholdings

The Board of Directors and employees held 57% of shares in Bakkavör Group at year-end 2008.

In May 2008, the Board of Bakkavör Group approved a discretionary company share option plan, which came into effect on 23 May 2008. According to the Plan, the Board granted options over an aggregate of 41,694,568 ordinary shares at an exercise price of 36 ISK per share to key employees of Bakkavör Group hf. The exercise price is the market value of a Bakkavör Group share at the close of business on 22 May 2008. The options will vest after three years starting from the grant date and will be available for exercise for two years, between 23 May 2011 and 22 May 2013.

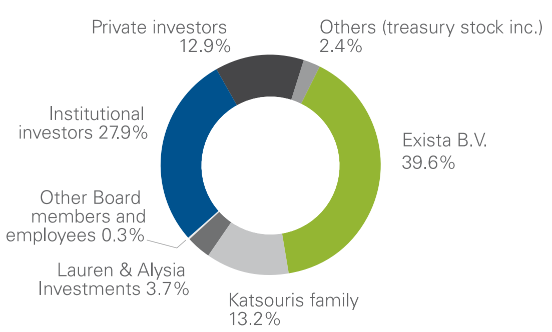
The 20 largest shareholders

as of 31 December 2008 are listed below::

Name	Shares	%
Exista B.V.*	855,151,478	39.6%
Gildi -lífeyrissjóður	193,390,157	9.0%
Lífeyrissjóður verslunarmanna	145,986,193	6.8%
Lífeyrissjóðir Bankastræti 7	130,000,000	6.0%
Lauren & Alysia Investments	80,269,613	3.7%
Antonios Prodromou Yerolemou	74,534,353	3.5%
Arion safnreikningur	57,369,986	2.7%
Eleni Pishiris	52,336,471	2.4%
Panikos Joannou Katsouris	52,336,471	2.4%
Stella Andreou	52,336,470	2.4%
Demos Habeshis	52,336,470	2.4%
Kaupþing Ís-15	46,115,975	2.1%
Stafir lífeyrissjóður	29,881,398	1.4%
Singer and Friedlander Limited	25,000,000	1.2%
Sameinaði lífeyrissjóðurinn	18,788,376	0.9%
Söfnunarsjóður lífeyrisréttinda	16,220,976	0.8%
Glitnir Sjóðir hf, sjóður 10	14,389,867	0.7%
Landssjóður hf, úrvalsbréfadeild	11,450,433	0.5%
Nýi Kaupþing banki hf	10,454,774	0.5%
Bakkavör Group hf	9,836,000	0.5%
Total	1,928,185,461	89.0%
Others	229,702,758	11.0%
Total	2,157,888,219	100%
Total number of shareholders	3,011	

* In October 2008, ELL 182 ehf., a company wholly owned by the Group's CEO Ágúst Gudmundsson and the Chairman Lýður Gudmundsson, made an offer to acquire Exista BV's shares in Bakkavör Group. The transaction is subject to Bakkavör's lenders' approval.

Group of shareholders 31 December 2008



The options will lapse on 23 May 2013. Exercise is conditional upon the option holder remaining in continuous employment with Bakkavör Group hf. until the vesting date. The options were granted to 459 employees. The CEO of Bakkavör Group is not part of the plan. This share option plan has replaced other long-term bonus schemes and exemplifies the Group's commitment to align the interests of Bakkavör employees with the creation of shareholder value. Trading of shares by the Board of Directors and employees is strictly monitored by the Group's Compliance Officer, who is guided by the Icelandic Financial Supervisory Authority's Rules on Treatment of Insider Information and Insider Trading. Information on shares held by the Board of Directors can be found on page 46. A list of primary insiders can be found on the Financial Supervisory Authority's website, www.fme.is.

Information policy

The cornerstone of the Group's information policy is to provide current and potential investors with equal access to consistent and as detailed information as is commercially sensible. Regulatory announcements are published simultaneously across the European Economic Area. Financial results are issued quarterly in accordance with the requirements of the OMX Nordic Exchange in Iceland. All price-sensitive information is published in a timely manner.

Bakkavör is part of the following indices:

- OMX Nordic Consumer Staples
- OMX Nordic Beverage & Tobacco
- OMX Iceland 15
- OMX Iceland 15 Cap
- OMX Iceland All-Share
- OMX Iceland Consumer Staples
- OMX Iceland Mid Cap
- OMX Nordic All-Share
- OMX Nordic Large Cap
- VINX Consumer Staples
- VINX Food Beverage & Tobacco
- VINX All-Share

Distribution of shares

No. of shares	Shareholders	Ratio	Shares	Ratio
1 - 9,999	1,562	51.9%	6,585,641	0.3%
10,000 - 49,999	989	32.8%	22,030,260	1.0%
50,000 - 99,999	192	6.4%	13,055,447	0.6%
100,000 - 999,999	206	6.8%	51,139,323	2.4%
1,000,000 - 9,999,999	43	1.4%	146,728,087	6.8%
10,000,000 - 99,999,999	15	0.5%	593,821,633	27.5%
100,000,000 -	4	0.1%	1,324,527,828	61.4%
Total	3,011	100.0%	2,157,888,219	100.0%

Group website – www.bakkavor.com

In addition to Bakkavör Group's regulatory announcements, the website contains detailed information about the Group, its history, operations and activities. Past and current press releases, presentations and Annual Reports are archived on the website and available to download. Bakkavör Group's current and historic share price and traded volume are available to view against key indices.

Annual Report

The Group's Annual Report is an important communication tool and the Group strives to provide a balanced picture of all key aspects of the business, including financial and non-financial information. Downloadable versions of current and past annual reports are available on the Group's website. An interactive version of reports is also available from the website which facilitates page-by-page downloads and printing.

Financial statements

The latest financial statements can be downloaded from the Group's website and can also be viewed at the Group's Head Office.

Annual General Meeting

Bakkavör Group will hold its Annual General Meeting on Wednesday 20 May 2009.

Financial calendar 2009

Quarter one results	20 May 2009
Quarter two results	30 July 2009
Quarter three results	29 October 2009
Annual results 2009	4 February 2010

(All future dates may be subject to change. Please contact us or refer to the website for latest information).

Email alerts

If you wish to receive alerts by email or mobile phone, please subscribe to our email alert service at: www.bakkavor.com/subscribe

Contact us

We are happy to answer queries from current and potential shareholders. Similarly, please let us know if you wish to be put on electronic or postal mailing lists. Please contact us by phone, email, fax, mail or via the website.

Contact details

Investor Relations Department
Bakkavör Group
Ármúli 3, 108 Reykjavík, Iceland
Tel: +354 550 9700
Fax: +354 550 9701
Email: investor.relations@bakkavor.com

RISK MANAGEMENT

Highlighting our Board agenda

Board's approach to risk management

Bakkavör Group has a risk management framework in place which provides a structured and consistent process to identify, evaluate and manage risk in relation to the Group's strategy and business objectives.

Our risk management processes are operational at all levels of the Group. The Bakkavör Group Board has the ultimate responsibility for risk management, which includes the risk governance structure and the maintenance of an appropriate internal control framework.

Bakkavör Group has identified five key areas of risk which must be managed in order to ensure its long-term sustainability and profit.

- Sustainable growth
- Operational safety
- Customer relationships
- Consumer understanding
- Shareholder value

Board agenda

Bakkavör Group is faced with a number of risks in its business environment and has identified five key areas of risk which must be managed in order to ensure the long-term sustainability and profitability of the Group. The Board ensures that the Group has the necessary capabilities, expertise, processes and controls in place to manage risk in each of these areas.

Sustainable growth

Bakkavör Group has been characterised by considerable growth in recent years through strategic acquisitions and organic growth. It is important to ensure that our business continues to remain sustainable and profitable through focus on performance, synergies and integration. Major acquisitions entail numerous risks for Bakkavör Group. These relate primarily to the Group's ability to execute the integration and realise the benefits underlying the rationale of the acquisition. Underestimating the importance of cultural integration is also a risk in merging companies. Any factors leading to failed integration would have an adverse effect on Bakkavör Group's operations.

Operational safety

The operational Health and Safety of our employees and the quality and safety of the products we make and sell is paramount to the continued success of our business.

Employee training is critical to the management of operational and food safety and we are committed to providing this at all levels within our operations.

All our factories operate documented quality management systems (QMS) based on Hazard Analysis Critical Control Point (HACCP) principles and customer Codes of Practice. These systems manage the risk of failed internal processes and human error and ensure that the products manufactured are safe, legal, of the quality required by the individual customer and made in a secure and safe working environment.

Traceability is a critical component in our management of food safety, allowing us to trace ingredients quickly from the source through to the finished product and vice versa. We work closely with our suppliers to source safe, legal, quality ingredients to a consistent standard. This includes regular visits to their factories to assure ourselves of the integrity of their quality systems and factory operations.

Customer relationships

As with most suppliers in the fresh prepared foods sector, our customers are few, but of critical importance to us, and it is our intention to continue to build strong relationships with them. Our products carry our customers' brand names and we develop products in close partnership with our customers. At various levels of our organisation, our employees talk to their customer peers (often daily). At a senior level, we appoint 'Customer Champions' who are responsible for managing overall customer relations with their specific contacts. This communication facilitates the day-to-day business as well as longer-term strategic planning.

Consumer understanding

At the heart of our success are the people who buy and eat our finished products – our consumers. It is important for us to listen to their demands in order to provide them with innovative meal solutions which are of high quality and quick and easy to prepare. As such development and innovation skills must remain a high priority in our business.

Shareholder value

The principal goal of Bakkavör Group is to provide good, long-term returns for its shareholders and we value the trust that our shareholders place in us. The key to achieving this goal is the development and communication of a clear strategic vision and the recruitment and retention of talented management to implement it.

CORPORATE GOVERNANCE

Running our business with integrity

Bakkavör Group defines Corporate Governance as the code of conduct by which the Group is directed and controlled. This involves its relations with shareholders, employees, customers, suppliers and other key stakeholders.

Policy and context

The duties of the various bodies within Bakkavör Group are determined by Icelandic law and by the Group's corporate governance policy, which is based on the Guidelines on Corporate Governance ('the Guidelines'). These were first issued in 2004 by the Iceland Chamber of Commerce, the OMX Nordic Exchange in Iceland and the Confederation of Icelandic Employers, and were re-issued in December 2005.

With the exception of the recommended number of independent Directors (see 'Comply or explain' further on) Bakkavör Group complies with all recommendations in the Guidelines.

Structure and bodies

Bakkavör Group's organisational structure is decentralised, which enables the business to respond quickly to the demands of the fast-moving fresh prepared foods and produce markets in which it operates. Bakkavör Group's governance structure reflects the organisational structure of the Group.

A description of each of the key governance bodies follows: shareholder meetings, the Board of Directors, the Board Committees, the Chief Executive Officer and the Management Board of Bakkavör Group.

Shareholder meetings

Shareholder meetings are the supreme authority in Bakkavör Group's affairs (within the restrictions made by the Group's Articles of Association and Icelandic law). The Annual General Meeting (AGM) is scheduled once a year and other shareholder meetings are convened when necessary.

All shareholders, as well as their representatives, have the right to attend shareholder meetings. The members of the Board of Directors and the Chief Executive Officer also have the right to speak and submit motions at shareholder meetings, even if they are not shareholders. Shareholder meetings are also open to the media and representatives of the NASDAQ OMX Nordic Exchange in Iceland. Each share equals one vote, and motions are passed by majority vote unless otherwise stated in the Group's Articles of Association or Icelandic law.

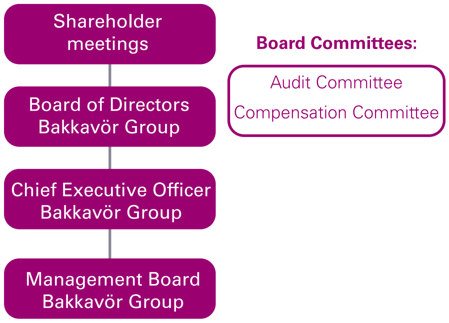
The Group's AGM is held before the end of June each year and, for the year 2008, is scheduled to take place on 20 May 2009. The AGM is advertised publicly with at least one week's notice and details of the meeting are set out on the Group's website: www.bakkavor.com, and on the NASDAQ OMX Nordic Exchange in Iceland's website: www.omxgroup.com/nordicexchange.

The Board of Directors

The Board of Directors has supreme authority in the Group's affairs in the period between shareholder meetings.

The Board of Directors is elected annually by shareholders at the AGM. At year-end 2008, the Board was comprised of eight members: the Chairman, five non-executive Directors (including the Vice Chairman of the Board) and two executive Directors. At the Group's AGM on 14 March 2008, Ágúst Gudmundsson, Lýdur Gudmundsson, Panikos Joannou Katsouris, Ásgeir Thoroddsen, Antonios P. Yerolemou, Dionysos A. Liveras, Managing Director of Laurens Patisseries Ltd. and Katrín Pétursdóttir, Managing Director of Lýsi hf.were re-elected for the term of one year. Additionally, Hildur Árnadóttir,

Governance structure and bodies



the Group's former Chief Financial Officer was elected to the Board. In February 2009, Antonios P. Yerolemou and Panikos J. Katsouris resigned as non-executive Directors of the Board of Bakkavör Group. Their resignations took effect as of 25 February 2009. According to the Group's articles of association the Board of Directors of the Company shall be comprised of up to eight members, thus a minimum number of Board members is not required.

Comply or explain

According to the Guidelines, it is preferable that the majority of the Directors be independent. Since February 2005, the majority of Bakkavör Group's Board Directors has not been independent. In 2008, the Board consisted of four independent members and four non-independent members. Following the resignation of Antonios P. Yerolemou and Panikos Joannou Katsouris, there are currently two independent members and four non-independent members. The Board of Directors complied with the Guidelines in all other respects during the year.

The Board's responsibilities to shareholders encompass:

- Setting the Group's strategy
- Providing leadership within a framework of controls for managing risk
- Maintaining the policy and decision-making framework in which the Group's strategy is implemented
- Ensuring that necessary financial and human resources are in place to meet strategic goals
- Monitoring performance against key financial and non-financial indicators
- Overseeing the system of risk management
- Setting values and standards in governance matters

The responsibilities of the Board

The Board is responsible for the overall management and performance of the Group and has adopted written working rules specifying its responsibilities.

The Chairman of the Board is responsible for leading the Board, facilitating its work and ensuring that the Board is capable of operating in the interests of the Group's shareholders. The Chairman also serves as the Board's spokesperson.

Together, the Board members bring a valuable and balanced range of experience as they have all held, or hold, senior positions in professional and public life. Profiles of the Board members are set out on pages 30 and 31.

The Board elects a Chairman and Vice Chairman of the Board of Directors and appoints the Chief Executive Officer (CEO).

The Board has a formal agenda of matters reserved to it for decision-making, which include: strategy formulation, approval of annual and interim statements, approval of annual budget and business plan, approval of acquisitions and disposals, approval of major capital investments, monitoring of internal controls and important policy matters.

The Board reviews and determines the compensation of the CEO. However, the Compensation Committee discharges the Board's responsibility in reviewing and determining the CEO's remuneration. The Board also approves the organisational structure of the Company.

The Board plans to assess its activities and work procedures regularly with the assistance of outside parties, as applicable. All Directors are required to deal at arm's length with the Group and its subsidiaries and to disclose circumstances that might be perceived as a conflict of interest.

Board meetings

The Board of Directors convened 14 times in 2008. The average attendance at the Board meetings was 98%.

In advance of each Board meeting, the Board members are provided with a Board report which includes a comprehensive monthly report of the Group's financial performance, operations and market conditions. Board members are informed about all significant matters immediately.

Board Committees

The Board's work is supported by its Committees – the Audit and Compensation Committees. Each Committee's Chairman and members are appointed by the Board annually.

Audit Committee

The powers and duties of the Audit Committee are determined in the Audit Committee Charter, which is approved by the Board. The Audit Committee is responsible for monitoring the Group's internal control system and financial reporting process.

To this effect, the Audit Committee is in regular contact with the external auditor to ensure that observations made by the auditor are adhered to. The Audit Committee receives written confirmation from the external auditor as to any relationships which may reasonably be thought to influence its independence. The external auditor also confirms whether it considers itself independent within the meaning of the professional requirements. The Committee reviews with the external auditor and the Chief Financial Officer (CFO) the effectiveness of the internal control system and financial reporting process. The Committee keeps under review the scope and results of the audit. The Audit Committee, acting with the Board of Directors, is responsible for the selection, evaluation and nomination, when applicable, of an external auditor for shareholder approval.

According to the Guidelines, employees are not allowed to be members of the Audit Committee, and the majority of members should be independent. All Audit Committee members must have thorough knowledge of accounting and preparation of financial statements.Bakkavör Group complies with these guidelines.

Auditors

An external auditing firm is elected by the shareholders at the Annual General Meeting for a term of one year. The auditors shall neither be members of the Board of Directors nor employees of the Group and are not allowed to own shares in the Company. The auditors shall have access to all books and documents of Bakkavör Group at all times and shall ensure that the Group's annual accounts are in accordance with generally accepted accounting standards.

Deloitte hf. was elected the Group's auditor at the AGM on 14 March

Board meeting attendance in 2008

Board member	Board meeting attendance	Audit Committee meeting attendance	Compensation Committee meeting attendance
Lýður Gudmundsson, Chairman	14/14		4/4
Ágúst Gudmundsson, CEO	14/14		
Antonios P. Yerolemou *	13/14		4/4
Ásgeir Thoroddsen	14/14		4/4
Dionysos A. Liveras	13/14		
Hildur Árnadóttir **	12/14	2/2	3/3
Katrín Pétursdóttir	14/14	2/2	
Panikos J. Katsouris *	14/14	1/1	
Total	98%	100%	100%

* In February 2009, Antonios P. Yerolemou and Panikos J. Katsouris resigned as Non-executive directors of the Board of Bakkavör Group. Their resignations took effect as of 25 February 2009.

** Hildur Árnadóttir was elected to the Board at the Group's Annual General Meeting on 14 March 2008. She is the Group's former Chief Financial Officer.

2008. Auditors on Deloitte's behalf are Mr. Sigurdur H. Steindórsson, State Authorised Public Accountant, and Mr. Birkir Leósson, State Authorised Public Accountant. Deloitte hf. has been the Group's auditor since the Company's foundation in 1986. Mr. Sigurdur H. Steindórsson has acted on its behalf since 2007 and Mr. Birkir Leósson since 2008.

Auditing fees

Clear guidelines exist which outline other professional services which are appropriate for Deloitte hf. to provide in their capacity as Group auditor. These services include: due diligence on mergers, acquisitions and disposals, and tax and business risk assurance. These guidelines ensure the independence of the Group's auditors. Details of auditing fees and other fees paid to Deloitte hf. are set out in Note 7 on page 72.

Compensation Committee

The powers and duties of the Compensation Committee are determined in the Compensation Committee Charter, which is approved by the Board. The Compensation Committee discharges the Board's responsibility in matters relating to executive compensation. This work includes administration of the Group's incentive compensation and equity-based plans. Executive performance and compensation is evaluated annually.

The Committee prepares an annual report on executive compensation for inclusion in the Company's Annual Report, in accordance with applicable rules and regulations. The principal responsibility in compensating executives is to co-ordinate the incentives of the executives with actions that will enhance long-term shareholder value.

According to the Guidelines, employees are not allowed to be members of the Compensation Committee, and the majority of members should be independent. Bakkavör Group complies with these guidelines.

Chief Executive Officer

The Board of Directors appoints a Chief Executive Officer (CEO) and decides the terms of his employment. The CEO is responsible for the daily management of the Group as well as the implementation of the Group's strategy as set out by the Board. Furthermore, the CEO shall ensure that the accounts and finances of the Group conform to law and accepted accounting standards and that the disposal of the Group's assets is handled securely.

The Management Board

Below Board level, the management of the operations is delegated to the Group's Management Board. The Management Board is headed by Bakkavör Group's Chief Executive Officer, Ágúst Gudmundsson. Other members of the Management Board are: three Managing Directors, the Chief Financial Officer and the Group Technical Director. Profiles of the members of the Management Board are set out on page 32 and 33. The Management Board meets monthly.

The Management Board sets policies in important risk areas such as food safety, employee matters, Health and Safety and the environment.

Led by a General Manager, each of the Group's businesses must comply with these policies as well as be responsible for running their businesses, meeting the demands of their customers, and the strategic and financial targets that have been set by their Managing Director.

Compliance

In accordance with statutory law, Bakkavör Group complies with the Rules on Treatment of Insider Information and Insider Trading ('the Rules') issued by the Financial Supervisory Authority. In accordance with the Rules, an independent Compliance Officer, appointed by the Board of Directors, is responsible for monitoring and supervising the handling of insider information. In addition, the Group has in place rules on the handling of inside information and insider trading. These additional rules of the Group state, among other things, that it is preferable that primary insiders do not trade in the securities of the Group

Compensation overview (GBP ´000)

	Salary and Board fee	Benefits	Pension fund payments	Total GBP	Shares at year-end*
Lýdur Gudmundsson, Chairman	24		1	25	*** 855,166,183
Ágúst Gudmundsson, CEO	** 850	140	1	991	*** 855,166,183
Antonios P. Yerolemou, Board member******	24		1	25	74,534,353
Ásgeir Thoroddsen, Board member	24		1	25	1,418,164
Dionysos A. Liveras, Board member	24		1	25	**** 80,269,613
Hildur Árnadóttir, Board member*****	85		6	91	3,500,000
Katrín Pétursdóttir, Board member	24		1	25	
Panikos J. Katsouris, Board member******	24		1	25	52,336,471

* In Icelandic Króna (ISK) and including holdings of their spouses, dependent children, and companies owned by them, if any.
** As of 1 October 2008 Ágúst Gudmundsson's salary was reduced by 50%.
*** Ágúst Gudmundsson and Lýdur Gudmundsson in total hold control of 855,166,183 shares through Exista B.V. and related parties.
**** Dionysos A. Liveras in total holds control of 80,269,613 shares through Lauren and Alysia Investments.
***** Hildur Árnadóttir was elected to the Board at the Group's Annual General Meeting on 14 March 2008. She is the Group's former Chief Financial Officer.
****** In February 2009, Antonios P. Yerolemou and Panikos J. Katsouris resigned as non-executive Directors of the Board of Bakkavör Group. Their resignations took effect as of 25 February 2009.

except during a six-week period from the publication of the Group's financial reports, regardless of whether they possess inside information or not. The Compliance Officer is responsible for keeping employees informed about these rules as well as maintaining the list of insiders, which can be accessed on the website of the Financial Supervisory Authority, www.fme.is.

Compensation

Board compensation

Compensation to the Board of Directors is decided at the Annual General Meeting. For 2008, the agreed annual fee was £25,000 for each Board member (including the Chairman). As of 1 October 2008, the Board of Directors decided to reduce Ágúst Gudmundsson's salary by 50% to GBP 500,000 per annum and the remuneration to each member of the Board of Directors, including the Chairman, by one third, to £18,000 per annum. During 2008 the Board was compensated as stated in the table above.

There are no outstanding guarantees, loans, advances or credits to members of the Board or other Directors. No shares were allotted to members of the Board in 2008 and there are no programmes for share allotment in place for Board members.

Besides the compensation detailed in the table below, some Board members have been involved in commercial trading with Bakkavör Group: Katsouris Brothers Ltd. (chaired by Panikos J. Katsouris) has supplied Katsouris Fresh Foods with raw materials. Panikos J. Katsouris is also in control of buildings rented by the Group. The Group rents office space from Tjarnargata 35 ehf., which is owned by Ágúst Gudmundsson, CEO, and Lýdur Gudmundsson, Chairman of Bakkavör Group hf. The Group also rents office space from Exista ehf., owned by Exista hf., and during 2008 the Group rented office space to Exista UK. As a result of financial activities in 2008, Bakkavör was in debt with Exista hf. at year end.

All transactions are based on arm's length principles and are not considered to be part of the Board's compensation. Details of related-party transactions can be found in Note 31 on page 90 of the accounts section.

Summary of Board Governance in 2008

	Independent	Audit Committee	Compensation Committee
Lýður Gudmundsson, Chairman	No	No	Yes
Ágúst Gudmundsson, CEO	No	No	No
Antonios P. Yerolemou *	*** Yes	No	Yes
Ásgeir Thoroddsen	Yes	No	Chairman
Dionysos A. Liveras	No	No	No
Hildur Árnadóttir **	No	Yes	Yes
Katrín Pétursdóttir	Yes	Yes	No
Panikos J. Katsouris *	Yes	Yes	No

* In February 2009, Antonios P. Yerolemou and Panikos J. Katsouris resigned as Non-executive directors of the Board of Bakkavör Group. Their resignations took effect as of 25 February 2009.
** Hildur Árnadóttir was elected to the Board at the Group's Annual General Meeting on 14 March 2008. She is the Group's former Chief Financial Officer.
***According to the Guidelines, Board members may not be defined as independent if they become Board members within three years of being an employee of the company. Antonios P. Yerolemou, who was a non-executive Director, was the Executive Chairman of Bakkavör Group's subsidiary, Katsouris Fresh Foods until 30 September, 2005. He was considered independent as of 1 October 2008.

Taking action

Our short-term business priorities are to mitigate current inflationary pressures, improve operational efficiencies, increase market share and drive significant cash generation. To make this happen, we are not afraid to take tough decisions to maintain the long-term sustainability and profitability of our business.

Extensive restructuring programme

Consolidating supplier base

Market share gains in ready meals

FINANCIAL REVIEW

Five-year summary

	2008	2007	2006	2005	2004
Operating revenues	1,618.3	1,471.0	1,219.2	722.0	149.6
Operating expenses	(1,553.8)	(1,360.4)	(1,104.9)	(655.5)	(128.6)
Share of profit (loss) in associates	(0.7)	(0.6)	(0.3)	0.1	3.2
Operating profit/EBIT pre-restructuring costs	63.8	110.0	114.0	66.6	24.2
Restructuring costs	(41.7)	0	0	0	0
Operating profit/EBIT post-restructuring costs	22.1	110.0	114.0	66.6	24.2
Net finance costs	(64.0)	(52.7)	(47.4)	(28.3)	(7.1)
Other gains and losses	(51.0)	0	0	0	0
Loss on other financial assets	(63.0)	0	0	0	0
Net (loss) income from operating activities	(155.9)	57.3	66.6	38.3	17.1
Income tax	1.7	(9.9)	(15.2)	(6.0)	(4.0)
(Loss) Profit from continuing operations	(154.2)	47.4	51.4	32.3	13.1
Discontinuing operation, net of tax	0	0	16.9	0	0
(Loss) Profit for the year	(154.2)	47.4	68.3	32.3	13.1
Shareholders’ (loss) earnings	(153.9)	46.7	67.7	32.0	13.1
Minority interest	(0.3)	0.7	0.6	0.3	0
Cash flow from operating activities	15.2	104.7	131.5	82.1	16.5
Capital expenditure	49.1	44.7	37.9	16.4	3.5
Balance sheet					
Non-current assets	1,222.3	1,120.7	1,028.9	840.4	0.2
Current assets	533.5	362.1	296.9	294.2	55.1
Total assets	1,755.8	1,482.8	1,325.8	1,134.6	55.3
Equity	122.7	278.7	241.4	127.4	88.2
Subordinated convertible loan	0	0	0	12.9	12.9
Non-current liabilities	830.6	806.1	715.7	691.3	152.0
Current liabilities	802.5	398.0	368.7	303.0	19.4
Liabilities	1,633.1	1,204.1	1,084.4	1,007.2	184.3
Total equity and liabilities	1,755.8	1,482.8	1,325.8	1,134.6	272.5
Key ratios					
Quick ratio	(71.0)	0.8	0.7	0.9	2.6
Current ratio	0.7	0.9	0.8	1.0	2.8
Equity ratio	7.0%	18.8%	18.2%	12.4%	37.1%
EBITDA pre-restructuring costs	108.5	149.0	147.8	86.1	28.0
EBITDA post-restructuring costs	84.1	149.0	147.8	86.1	28.0
EBITDA ratio pre-restructuring costs	6.7%	10.1%	12.1%	11.9%	18.7%
EBITDA ratio post-restructuring costs	5.2%	10.1%	12.1%	11.9%	18.7%
Return on equity	(76.8%)	18.2%	37.1%	30.0%	16.4%
(Loss) earnings per share from continuing operations	(7.2)	2.2	2.6	2.0	0.8

Amounts in GBP millions

Executive summary

In what are difficult operating conditions for many companies, we have secured funding across all of our operating businesses, strengthened our trading operations and maintained our sales performance despite the slowdown in consumer spend.

In 2008 our profitability and cash generation were significantly affected by a number of one-off exceptional factors, such as extensive restructuring activity and the loss on our investment in Greencore Group plc, coupled with the tough trading environment.

By focusing on our business priorities we have, however, made progress in improving operational efficiencies, mitigating inflationary costs and increasing market share in core product categories.

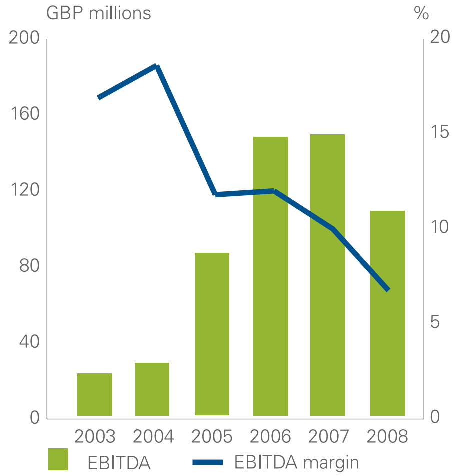
WHAT WE DID IN 2008 & TO DATE

- Secured funding across operating businesses for next 3 years
- Strengthened our trading operations with extensive restructuring
- Mitigated inflationary pressures
- Maintained sales performance in tough climate
- Increased market share in core product categories

HOW WE DID IN 2008

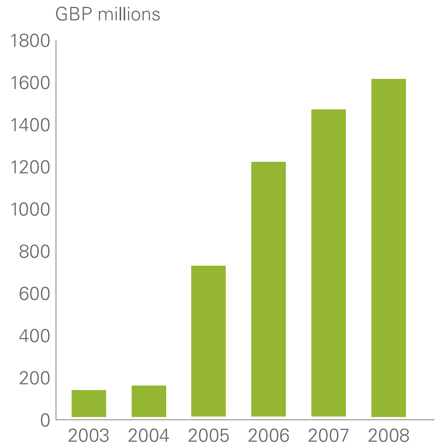
- Profitability and cash generation significantly affected by a number of one-off exceptional factors coupled with the tough trading environment
- Turnover £1.6 billion
- Underlying like-for-like sales growth 1.9%
- EBITDA pre-restructuring costs £109 million
- EBITDA margin pre-restructuring costs 6.7%
- Loss for the period £154.2 million, affected by one-off costs amounting to £177 million
- Cash flow from operations £45.7 million in 2008

Underlying EBITDA* / EBITDA margin**



* EBITDA excluding restructuring costs
** Continuing operations

Net sales*



* Continuing operations

Outlook 2009

Along with other businesses in our industry, we remain cautious about the short-term trading environment in which we operate due to ongoing inflationary pressures, the impact of economic uncertainty and the downturn in consumer confidence.

Against this backdrop we have concentrated on our business priorities to improve operational efficiencies, mitigate inflationary costs and increase market share in core product categories. This process has involved implementing a strategic restructuring programme to address under-performing manufacturing sites and optimise capacity across the businesses.

Going forward we expect the trading conditions to remain challenging. However, due to the actions we have already taken and the continued focus on our business priorities, we believe the Group is now better placed to manage ongoing trading pressures as well as adapt to current and future consumer demand. We are therefore confident about the long-term prospects of our business. We anticipate returning to profit growth and good cash generation from operations in 2009 driven by the benefits of the restructuring activity.

Accounting policies

The Consolidated Financial Statements for the year ended 31 December 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Icelandic disclosure requirements for listed companies. The Consolidated Financial Statements consist of the Consolidated Financial Statements of Bakkavör Group hf. and its subsidiaries – together referred to as 'the Group'. Longshun Foods was consolidated into the Group's accounts from January 2008, Two Chefs on a Roll from February 2008, Italpizza from May 2008, Fram Foods SA. from July 2008 and Guangzhou Riweijian Ltd. from October 2008. Gastro Primo has been accounted for as an associate company from March 2008 and La Rose Noire from May 2008.

Sales

Group sales amounted to £1.6 billion in 2008, which is a 10% increase in the previous year. Sales growth in the underlying business[1]was 1.9% in 2008 and 5.1% in the fourth quarter. Our overall fresh prepared foods sales growth was virtually flat at -0.1% against a 3.3% market growth, with Group sales still affected by our strategic ready meals restructuring, coupled with weak summer trading in our cold-eating categories driven by the unsettled weather. The Group however did achieve strong sales growth rates in 2008 in categories such as prepared fruit (+25%), ready to cook meals (+13%), pizza (+11%) and soups (+9%).

[1] Underlying sales excludes acquisitions

UK sales represented 86% of the Group's turnover in 2008, amounting to £1,388 million, up 3.9%. Underlying[1] sales in the UK business decreased by 0.4% in the year, but increased by 0.9% in the fourth quarter due to market share gains. A major factor behind the decline in the year has been the downturn in ready meals and produce sales. Our continental European operations delivered solid sales growth despite aggressive competition from branded manufacturers and cautious consumer spending due to economic uncertainty. Continental European sales represented 11% of the Group's turnover in the year, amounting to £183.9 million, up 43.9%. Like-for-like[2] sales in Continental Europe grew by 7% in the year on a constant currency basis. Bakkavor Group also has operations based in Asia and the US where the Group is gaining ground. Sales in these other geographical markets represented 3% of our turnover in 2008, amounting to £45.7 million, up 958%. Like-for-like[2] sales in Rest of World grew by 46% in the year. For more information on sales, please turn to page 12.

Performance

In 2008 our profit margins were significantly impacted by the challenging trading environment, disruption from restructuring activities undertaken by the Group, inflationary pressures, costs associated with the 2007 strategic withdrawal from ready meals and increased promotional spend.

EBITDA before restructuring costs ("pre-restructuring EBITDA") was £108.5 million, compared with £149.0 million, on the same basis in 2007, a decline of £40.5 million. EBITDA after restructuring costs ("EBITDA") totalled £84.1 million in 2008 compared with £149.0 million in the same period last year, down 43.6%.

[2] Like-for-like includes acquisitions as if owned by the Group since 31 Dec 2006

The pre-restructuring EBITDA margin was 6.7% in 2008 compared to 10.1% in 2007. The post-restructuring EBITDA margin was 5.2% in 2008 compared with 10.1% in 2007, a decrease of 490 basis points. Pre-restructuring operating profit of £63.8 million is a £46.2 million decrease on 2007. Post-restructuring operating profit amounted to £22.0 million in 2008, decreasing by 80%.

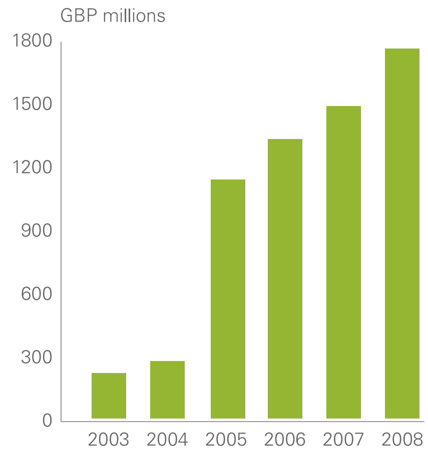
We have concentrated on our business priorities to improve operational efficiencies and mitigate inflationary costs. Going forward these business priorities continue to be our key focus.

Since late 2007 the Group has been implementing a strategic restructuring programme to address under-performing manufacturing sites and optimise capacity across the businesses. This process has involved significant restructuring across our ready meals operations as well as consolidation in other areas of the business. We believe our focus on improving operational efficiencies is fundamental in generating profitable growth in the long term.

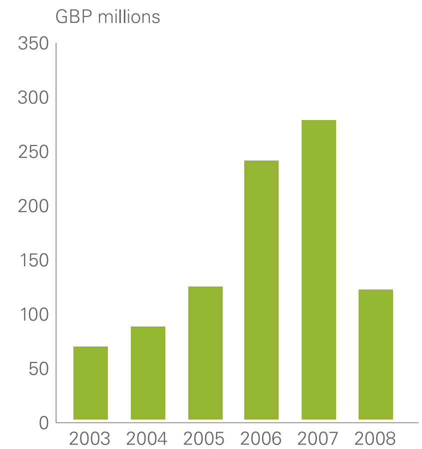
In the UK throughout 2008 the progressive downturn in the ready meals market affected productivity and profitability of manufacturing sites across the sector including our own businesses. As part of our restructuring programme we proposed the closure of three UK ready meals factories – Saxon Valley Foods, based in Biggleswade and Mariner Foods, based across two sites in Grimsby. These proposals were adopted as part of the consultation process and two of these factories have now been closed. The third factory is expected to close in Q2 2009. We have now successfully transferred the majority of ready meal and soup products manufactured at these sites to other factories within the Group, whilst resigning the supply of certain low margin ready meal and soup product lines.

In addition, we closed two other manufacturing sites in 2008 – in Q2 we closed our pasta facility in Scunthorpe which was heavily impacted by steep raw material cost increases and in Q3 we closed our Birmingham dips and

Assets



Equity



dressings facility due to limited capacity, successfully transferring its products to our Welcome Foods business.

Following consultation processes initiated in Q4 we have also re-organised and consolidated other areas of the UK business based in the Birmingham, Yorkshire and Lincolnshire areas. The sites involved in these processes were Bourne Stir Fry, Exotic Farm Produce, Bakkavor Spalding, English Village Salads and Pure Patisserie. Pure Patisserie closed in March 2009 following the transfer of its dessert production to our newly extended Isleport Foods site.

The costs associated with this extensive restructuring programme and the associated disruption to operations impacted profits significantly in 2008, in particular the fourth quarter. The cost of these activities for the year amounted to £19.2 million in cash costs, £17.5 million of asset impairment and £5.0 million of onerous property costs.

We believe the actions undertaken have been essential for the businesses to ensure their long term sustainability and we are now better placed to manage ongoing trading pressures as well as adapt to current and future consumer demand.

Interest

Net finance costs totalled £64.0 million in the twelve month period, compared with £51.3 million in 2007, reflecting increased leverage in relation to acquisitions and a higher underlying cost of debt.

Other gains and losses

The Group classifies movements in derivatives, financial instruments and exchange rate adjustments as other gains and losses.

The Group experienced non-cash losses from mark-to-market losses on interest rate swaps of £27.9 million, compared to loss of £2.9 million the previous year, and foreign exchange losses on Euro and US Dollar denominated loans of £23.1 million. In the fourth quarter the Group experienced losses from mark-to-market valuations and foreign currency of £53.7 million. The Group considered the commercial value of swaps in protecting its cash interest position to outweigh the non-cash volatility that has been experienced in the last quarter of 2008.

Loss on other financial assets in 2008 amounted to £63.0 million. This is due to a devaluation of a CFD (Contract for Difference) in Greencore Group plc of £58.5 million and a loss of a further £4.5 million, due to a devaluation of a 6.1% shareholding in Camposol, a

Peruvian company growing asparagus and avocados, under a forward equity contract. The Group disposed of both stakes during 2008 and therefore has no further exposure to them.

Income tax

Income tax amounted to a £1.7 million credit in 2008 compared with tax charge of £9.9 million in 2007. The effective tax rate, excluding loss on other financial assets, was 1.1% for the twelve month period, compared with 17.3% in 2007. The tax charge has been impacted by a one-off tax cost of £22.3 million relating to the impact on deferred taxation of the change in UK tax legislation on Industrial Building Allowances.

Trading between the Group's subsidiaries is monitored carefully to ensure that all transactions are based on arm's length principles. Careful management of income tax will continue to be an important contribution to the overall performance of the Group.

Dividends

Dividends are decided each year at the Group's Annual General Meeting. The Board of Directors will recommend at the Group's Annual General Meeting on 20 May 2009 that no dividends be paid out for the year 2009. This decision is based on the fact that following significant investment and expansion in recent years, the Directors believe it prudent to retain cash within the business to reduce indebtedness.

Capital structure

Equity decreased from £278.7 million at year-end 2007 to £122.7 million at the end of December 2008.

As approved by shareholders at Bakkavör Group's Annual General Meeting in March 2008, £7.6 million were paid in dividends to shareholders on 15 April 2008, which corresponds to ISK 0.55 per share (0.5 pence) or 55% of Bakkavör Group's issued share capital. The equity ratio at the end of the twelve months was 6.9% compared with 18.8% at year-end 2007.

During 2008, the Group's market capitalisation decreased by approximately 96%. Total borrowings increased during the year from £817.8 million at the end of 2007 to £1,161.6 million at the end of 2008.

Through the ongoing focus on the Group's business priorities, the Group intends to build up equity and lower indebtedness by returning to profit growth and good cash generation. The Board of Directors is authorised to increase the share capital by up to ISK 2,000,000,000 in nominal value with subscription for new shares. Shareholders waive their pre-emptive rights to new shares issued, as provided for in Article 34 of Act No. 2/1995. The Board of Directors is authorised to determine the offer price and terms of offer and to decide that subscribers pay for the new shares, partly or in whole, with other considerations than cash. This authorisation is valid until 23 March 2012.

Assets

The Group's total assets at 31 December 2008 were £1.8 billion compared with £1.5 billion at 31 December 2007.

Non-current assets amounted to £1,222.3 million compared with £1,120.7 million at year-end 2007. Goodwill and other intangible assets increased from £775.9 million to £851.0 million following acquisitions during the period. The assessment of fair value of the net assets of Longshun Foods (acquired in January 2008), Two Chefs on a Roll (acquired in January 2008) has now been completed and there will be no further impact on goodwill. Italpizza (acquired in April 2008), Heli Food Fresh (fully acquired in June 2008), Fram Foods SA. (acquired in July 2008) and Guangzhou Riweijian Ltd. (acquired in October 2008) are provisional and will be completed within 12 months of their acquisition dates.

Under IFRS, the value of goodwill is tested annually for impairment. At year-end 2008 an impairment test was performed on the goodwill of Bakkavör Group and, as a result of the test, goodwill impairment was not required.

Borrowings

In March 2009 the Group secured funding across all of its operating businesses. These facilities are fully committed for the next three years to 30 March 2012, providing covenant and liquidity headroom to support the Group's business plan and demonstrates the lenders' faith in the underlying business and their commitment to the ongoing future of Bakkavör. Non-current liabilities increased by £25 million, to £830.6 million at the end of December 2008, compared with £806.1 million at year-end 2007, largely reflecting the effects of acquisitions during the twelve month period. At year-end 2008, 69% of the gross debt was due after more than one year, increasing to 84% after the refinancing in March 2009.

Cash and cash equivalents increased by 199% to £210.7 million at year-end 2008 compared to £70.4 million at the end of 2007. The Group had, deriving from its financing activities, £131 million on deposit with Kaupthing Bank in Iceland at the year end. By mid April 2009 the full deposit was retrieved and the cash was used to repay the indebtedness in the Group's key credit facilities of the operating business. The Group's borrowings, net of cash, amounted to £950.9 million at year-end 2008 compared to £747.7 million at year-end 2007.

Current liabilities increased from £398.0 million at year-end 2007 to £802.4 million at the end of 2008, mainly due to bonds issued in 2003 maturing in May 2009. The current ratio was 0.7 compared with 0.9 at year-end 2007.

Details of borrowings, currency and interest rate profile of the Group's borrowings are disclosed in Notes 22, 26 and 30 to the Consolidated Financial Statements.

The Group has guaranteed borrowings and other liabilities of certain subsidiary undertakings. The amounts outstanding at 31 December 2008 amounted to £112.5 million.

Committed payments at year-end 2008 amounted to £135.1 million. These payments have not been provided for in the accounts and relate to lease payments under non-cancellable operating leases, contracted capital expenditure and purchase commitments. For further information on committed payments, refer to Note 24 in the Consolidated Financial Statements.

Cash flow generation

Bakkavör Group is inherently a cash-generative business and, as previously stated, cash generation remains a core focus. However the Group experienced a reduction in cash generation during the year which as at this level is primarily a consequence of the reduced EBITDA, considerable working capital outflows arising from the adverse timing of customer receipts at the year end, effect of the withdrawal of industry-wide credit insurance on creditor payments and one-off insurance receipts in 2007.

The Group's cash generation from operations in 2008 amounted to £45.7 million compared with £137.8 million in the same period last year. Cash flow after deducting payments of interest and tax amounted to £15.2 million in 2008 compared with £104.7 million in the same period in 2007. Interest payments increased by £6.6 million to £38.8 million due to the increase in the level of debt and the Group received £8.2m in tax rebates reflecting the losses made in the year and the benefit of tax planning initiatives.

The Group defines free cash flow as the amount of cash generated by the business, after meeting all its obligations for interest, tax and after investments in tangible assets. Free cash flow was negative of £34.0 million in 2008 compared with a positive free cash flow of £60.0 million in 2007.

Investing activities

Investing activities totalled £169.0 million in the year compared with £95.3 million in the comparable period 2007.

The Group's capital expenditure programme is geared towards meeting its planned growth, cost efficiency and infrastructure requirements. Capital expenditure at the Group's current sites amounted to £49.1 million, some 1.1x depreciation, of which £29.1 million was invested in increased capacity, including the building of two new factories.
In addition to the jobs created, this expenditure demonstrates the Group's commitment to ensuring it maintains well-invested facilities. The expenditure will ensure Bakkavör Group's continued ability to grow over the next two years primarily within the Group's current facilities. Therefore, capital expenditure in 2009 and 2010 will be reduced significantly when compared to current levels of investment and is not expected to exceed £50 million in total.

The outflow of £53.9 million relating to financial assets is due to the economic interest in Greencore Group plc. The cash outflow on acquisitions in 2008 was £57.1 million and investments in associates were £8.9 million.

At 31 December 2008 the Group had capital commitments of £6.8 million not provided for in the accounts. It is anticipated that these commitments will be financed from the Group's operational cash resources.

Financial risk

Bakkavör Group is exposed to a variety of risks. Set out below is a description of factors that may affect the Group's business results. These risks include market risk (interest rate risk and currency risk), credit risk and liquidity risk. The Group seeks to minimise these risks where possible and does this by constantly monitoring, reviewing, effectively managing and using derivative financial instruments. Use of financial instruments is governed by Group policies which are approved by the Board of Directors. The treasury department does not operate as a profit centre, makes no speculative transactions and only enters into or trades financial instruments for specific purposes.

Interest rate risk

The fair value of the Group's financing, investments and related hedging instruments is affected by movement in interest rates. This risk is both macro (market fluctuations and liquidity) and micro (Group's margin).

Backed by a strong operational cash flow, the Group is a net borrower in order to maintain liquidity and optimise its weighted average cost of capital (WACC) and fund operations.

The Group is exposed to interest rate risk on borrowings. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings. Interest risk management balances debt financing as a tool to improve the returns through leverage in the capital structure with the potential for an increase in interest rates to impact profits negatively. In order to reduce these fluctuations, the Group uses derivative instruments such as swaptions, swaps and collars. Details of interest rate hedging contracts can be found in Note 26 in the Consolidated Financial Statements.

In 2003 and 2005 the Group issued index-linked fixed rate bullet bonds in Icelandic króna with a 5-year and a 5½-year maturity respectively. The interest rate on these bonds was swapped to floating rate GBP LIBOR at the time of issue, thus eliminating the exposure to the Icelandic consumer price index.

External capital market conditions, beyond the Group's control, can affect the margin offered to the Group for debt either for refinancing or for financing value added investments.

The level of hedging may vary from time to time within the Group's policy. At the end of 2008 around 49% of interest-bearing-debt was hedged against interest risk to some degree.

Among the actions taken to monitor the interest rate risk are stress tests to establish sensitivity to possible movement in rates and how they might affect the Group's results. These tests are presented to the Board.

Currency

The Group's functional currency is the pound sterling. The value of other currencies with regards to trading activities and the translation of its financial statements are therefore subject to currency fluctuations. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and currency options.

Most of the Group's foreign payments and sales are in pounds sterling, while foreign costs are normally in local foreign currency. Therefore the Group exposure rises mainly due to purchases and costs in currencies other than the functional currency. The Group's sensitivity to foreign currency has increased during the current period mainly due to new borrowings in Euro and US dollar. During 2008 the Group hedged 55% of its foreign currency cash flow with forwards and options.

The bonds issued in 2003 and 2005 were denominated in Icelandic króna. These bonds were swapped into pounds sterling at the time of issue, thus eliminating currency risk.

Liquidity

Bakkavör Group is inherently a cash-generative business and cash generation is a core focus of the Group's management. Seasonal working capital fluctuations are mitigated by the Group's diverse portfolio of products. Nonetheless it must ensure necessary short-term funding, as well as adequate medium- and long-term funding.

Short-term available funding is set up in the most cost-efficient way to fund forecasted peaks and to give reasonable operating headroom. Surplus funds are either in cash or marketable securities.

To monitor these objectives, forecasts are made using maturities of a week, month and up to a year. These forecasts, along with current cash position and variations, are sent each week to the Group's management. At the end of 2008 the Group had £210.7 million in available funds including £131 million on deposit with Kaupthing Bank in Iceland intended to repay the indebtedness in the Group's key credit facilities of the operating business.

Details of borrowings, currency and interest rate profile and liquidity risk management are disclosed in Notes 22, 26 and 30 to the Consolidated Financial Statements.

Credit risk

The Group is exposed to potential concentrations of credit-related losses, in the event of non-performance, that consist principally of financial instruments and trade receivables. The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date. In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are international banks with high credit ratings assigned by international credit rating agencies. The Group's maximum exposure, without taking into account value of any collateral obtained, amounted to £480.8 million at year-end 2008 compared with £324.5 million at year-end 2007. Additional information on credit risk and its effects on the Group's results can be found in Note 26 to the Consolidated Financial Statements.

Commodity

The Group has some exposure to price changes in commodity markets. In order to reduce the risk, the Group enters into forward contracts on vegetable oil, utilities and imported raw materials.

Retirement benefits

The Group operates a number of pension schemes for its employees across the world. These schemes are either trust- or contract-based and have been set up in accordance with appropriate legislation. The schemes are funded with investments in equities, bonds and other financial assets. The value of these assets is dependent on capital markets, which are inherently volatile. Short-term market risk is balanced by a long-term spread over time and the portfolio effect. These assets are held separately from the assets of the Group, in an administered fund. Consistent with all public companies the Group reviews the actuarial assumptions used in calculating its pension obligations on a regular basis. At 31 December 2008 and on an IAS19 basis, the Group's pension schemes showed an aggregate surplus of £0.4 million compared with £18.0 million at year-end 2007. Additional information on pension schemes can be found in Note 28 to the Consolidated Financial Statements.

Accounts

Endorsement by the Board of Directors and CEO

The Consolidated Financial Statements for the year 2008 consist of the Consolidated Financial Statements of Bakkavör Group hf. and its subsidiaries together referred to as the Group. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Icelandic disclosure requirements for listed companies.

In January Bakkavör Group hf. acquired 80% share in the Chinese vegetable and fruit provider, Yantai Longshun Foods, with a call option of buying the remaining 20% at the end of 2009.

In January Bakkavör Group hf. acquired Two Chefs on a Roll, a Californian fresh and frozen prepared food provider.

In March Bakkavör Group hf. acquired 48% share in the food and beverage supplier Gastro Primo in Hong Kong, with a non-binding call option to acquire the remaining 52% in 2010.

In April Bakkavör Group hf. acquired 90% share in the Italian pizza manufacturer, Italpizza.

In April Bakkavör Group hf. acquired 45% share in Hong Kong's leading producer of premium bakery and pastry products, La Rose Noire, with a call option to acquire an additional 45% share in 2010 and a 90% share in the company's Chinese operation in 2011.

In May the Board of Directors granted 41,694,568 shares to 459 employees of Bakkavör Group hf. and subsidiaries, at the exercise price 36 ISK per share. The vesting period of the options is 36 months and the options are exercisable for 24 months after the end of the vesting period.

In June Bakkavör Group acquired the remaining shares of Heli Food Fresh, a ready meals business in the Czech Republic.

In July Bakkavör Group announced the acquisition of the French subsidiary of Fram Foods hf., Fram Foods S.A. The company manufactures and supplies dips and bread products to the French retail market.

At 31 March 2009 Bakkavör has refinanced its banking facilites and secured funding through to 30 March 2012 across all of the operating subsidiaries. Discussions with the Bondholders and other creditors of Bakkavör Group hf. are constructive and ongoing.

The Board of Directors and the CEO of Bakkavör Group hf. are of the opinion that the accounting policies used are appropriate and that these Consolidated Financial Statements present all the information necessary to give a true and fair view of the Group's assets and liabilities, financial position and operating performance, as well as describe the principal risk and uncertainty factors faced by the Group.

Loss for the year, according to the Income Statement, amounted to GBP 154.2 million. Total equity amounted to GBP 122.7 million at the end of the year. The Board of Directors otherwise refers to the Consolidated Financial Statements regarding changes in the Group's equity and disposal of profits.

At year end the number of shareholders were 3,011. At the beginning of the year there were 3,851 shareholders. At year end one shareholder holds more than 10% of the shares, Exista B.V. and related parties with 39.6% of the shares.

The Board of Directors and the CEO of Bakkavör Group hf. have today discussed and approved the Consolidated Financial Statements for the year 2008 with their signature. The Board of Directors recommend that the Annual General Meeting approve the Consolidated Financial Statements.

The Board of Directors will recommend at the Group's Annual General Meeting on 20 May that no dividend will be paid out for the year 2009.

Reykjavík, 31 March 2009

Board of Directors and CEO

Lýdur Gudmundsson Chairman	Ágúst Gudmundsson CEO
Ásgeir Thoroddsen	Dionysos Andreas Liveras
Hildur Árnadóttir	Katrín Pétursdóttir

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, 2008, 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, 2008, 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 March 2009

Deloitte hf.

Sigurdur H. Steindórsson	Birkir Leósson
State Authorised Public Accountant	State Authorised Public Accountant

Consolidated Income Statement for the year 2008

	Notes	2008 Q4	2007 Q4	2008	2007
Net sales	5	412,531	372,300	1,618,306	1,470,966
Cost of sales		(321,825)	(292,382)	(1,268,892)	(1,135,095)
Gross profit		90,706	79,918	349,414	335,871
Operating expenses		(85,932)	(56,506)	(284,939)	(225,320)
Restructuring costs	8	(36,957)	0	(41,734)	0
Share of loss in associates		(446)	(306)	(716)	(562)
		(123,335)	(56,812)	(327,389)	(225,882)
Operating (loss) profit		(32,629)	23,106	22,025	109,989
Net finance costs	9	(14,433)	(12,018)	(63,964)	(51,251)
Other gains and (losses)	10	(53,728)	(2,470)	(50,968)	(1,435)
Loss on other financial assets	10	(449)	0	(62,961)	0
		(68,610)	(14,488)	(177,893)	(52,686)
(Loss) profit before tax		(101,239)	8,618	(155,868)	57,303
Income tax	11	2,789	1,796	1,670	(9,939)
(Loss) profit for the year		(98,450)	10,414	(154,198)	47,364
Attributable to:					
Shareholders of Bakkavör Group hf.		(97,171)	10,288	(153,872)	46,712
Minority interest		(1,279)	126	(326)	652
		(98,450)	10,414	(154,198)	47,364
(Loss) earnings per share (GBP pence)	12	(4.5)	0.5	(7.2)	2.2

Amounts in thousands of GBP

Consolidated Balance Sheet at 31 December 2008

	Notes	31.12.2008	31.12.2007
Non-current assets			
Goodwill and other intangible assets	13	850,992	775,851
Property, plant and equipment	14	358,270	337,711
Investments in associates	15	12,870	5,181
Deferred income tax asset	20	129	1,919
		1,222,261	1,120,662
Current assets			
Inventories	16	57,489	46,325
Trade and other receivables	17	262,520	245,350
Assets classified as held for sale	18	2,800	0
Cash and cash equivalents	17	210,724	70,447
		533,533	362,122
Total assets		1,755,794	1,482,784
Equity			
Share capital	19	14,854	14,854
Capital reserve		72,630	72,630
Other reserves		19,620	3,208
Retained earnings		14,536	186,613
Shareholders' equity		121,640	277,305
Minority interest		1,086	1,371
Total equity		122,726	278,676
Non-current liabilities			
Deferred income tax liability	20	33,875	39,135
Borrowings	22	796,749	767,014
		830,624	806,149
Current liabilities			
Borrowings	22	364,840	50,811
Other current liabilities		437,604	347,148
		802,444	397,959
Total equity and liabilities		1,755,794	1,482,784
Off Balance Sheet Items:			
Mortgages and commitments	24		

Amounts in thousands of GBP

Consolidated Statement of Changes in Equity for the year 2008

	Shareholders' equity						
	Share capital	Capital reserve	Other reserves	Retained earnings	Total	Minority interest	Total equity
Equity 1 January 2007	14,924	77,154	(1,437)	149,307	239,948	1,499	241,447
Translation reserves			4,645		4,645		4,645
Actuarial loss recognised on pension plan				(1,150)	(1,150)		(1,150)
Dividends				(8,256)	(8,256)		(8,256)
Profit for the year				46,712	46,712	652	47,364
Buy-back of ordinary shares	(70)	(4,524)			(4,594)		(4,594)
Change in minority interest						(780)	(780)
Equity 31 December 2007	14,854	72,630	3,208	186,613	277,305	1,371	278,676

	Shareholders' equity						
	Share capital	Capital reserve	Other reserves	Retained earnings	Total	Minority interest	Total equity
Equity 1 January 2008	14,854	72,630	3,208	186,613	277,305	1,371	278,676
Translation reserves			16,014		16,014		16,014
Actuarial loss recognised on pension plan				(10,619)	(10,619)		(10,619)
Recognition of share-based payments			398		398		398
Dividends				(7,586)	(7,586)		(7,586)
Loss for the year				(153,872)	(153,872)	(326)	(154,198)
Change in minority interest						41	41
Equity 31 December 2008	14,854	72,630	19,620	14,536	121,640	1,086	122,726

Amounts in thousands of GBP

Consolidated Cash Flow Statement for the year 2008

	Notes	2008	2007
Cash flow from operating activities			
Operating profit		22,025	109,989
Depreciation and amortisation	13, 14	62,083	39,034
Other items		(743)	(1,495)
Changes in current assets and liabilities		(37,679)	(9,747)
Cash generated from operations		45,686	137,781
Payments of interest		(38,754)	(32,202)
Receipt (payments) of tax		8,230	(889)
Cash flow from operating activities		15,162	104,690
Investing activities			
Property, plant and equipment	14	(49,113)	(44,726)
Acquisitions, net of cash acquired	27	(57,132)	(50,592)
Shareholdings		(8,873)	0
Financial assets		(53,915)	0
Investing activities		(169,033)	(95,318)
Financing activities			
Dividends		(7,586)	(8,256)
Bank loans		77,384	26,885
New borrowings		226,285	532,461
Payments of non-current liabilities		0	(529,362)
Financing activities		296,083	21,728
Net increase in cash		142,212	31,100
Effects of foreign exchange adjustments		(1,934)	(348)
Cash and cash equivalents at beginning of year		70,446	39,695
Cash and cash equivalents at year end		210,724	70,447

Other information:

		2008	2007
Free cash generated (to) by operating activities		(33,951)	59,964

Non-cash transactions:

		2008	2007
Buy-back of ordinary shares with new loan			4,594

Amounts in thousands of GBP

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 2008 comprise Bakkavör Group hf. (the parent) and its subsidiaries (together referred as the Group).

The Group prepares its Consolidated Financial Statements in GBP, which is the Group'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 and Interpretations

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

	Effective date: Annual periods beginning:
• IAS 23 (Revised) Borrowing Costs	On or after 1 January 2009
• IAS 1 (Revised) Presentation of Financial Statements	On or after 1 January 2009
• IFRS 8, Operating Segments	On or after 1 January 2009
• IFRS 2, (Revised) Share-based Payment	On or after 1 January 2009
• IAS 27, (Revised) Consolidated and Separate Financial statements	On or after 1 January 2009
• IAS 39, (Revised) Financial Instruments: Recognision and Measurement	On or after 1 January 2009
• IFRS 3, (Revised) Business combinations	On or after 1 July 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 13 - Customer Loyalty Programs	On or after 1 July 2008
• IFRIC 15 - Agreements for the Construction of Real Estate	On or after 1 January 2009
• IFRIC 16 - Hedges of a Net Investment in a Foreign Operation	On or after 1 October 2008
• IFRIC 17 - Non-cash Assets to Owners	On or after 1 July 2009

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 Group.

IFRS 8 is the only one of the above new or revised standards and interpretations that has been approved by the EU.

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 financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. The principal accounting policies adopted are set out below.

Amounts in thousands of GBP

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Bakkavör Group hf. and entities controlled by the Group (its subsidiaries). Control is achieved where the Group 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 Group.

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 Group'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 Group 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 Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group'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 Group 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 Group'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 Group'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 Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

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 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities and contingent liabilities of a subsidiary 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 Group'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 recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit and loss on disposal.

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

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 Group'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 Group'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) 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) 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 Group'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.

ii) 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.

iii) 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.

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.

Financial liabilities and equity instruments issued by the Group

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) Financial liabilities

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

iii) 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 Group 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 Group'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.

iv) 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 Group uses derivative financial instruments (primarily foreign currency forward contracts and interest rate swaps) 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 Group's policy is to convert a proportion of its floating rate debt to fixed rates.

The use of financial derivatives is governed by Group's policies approved by the board of directors, which provides written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group 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 Group 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.

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.

Restructuring costs represent one off costs of major business changes and closures

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 Group'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 Group 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 Group 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 Group 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.

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 amortisation 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 Group 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 Group 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 Group 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 Group'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 recognised 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 Group pension plans are charged to the profit and loss account, in the period vested. Additional details are given in note 28.

3. Subsidiaries

Subsidiaries at 31 December 2008.

	Place of registration and operation	Interest	Principal activity
Bakkavor Holdings Ltd.	United Kingdom	100%	Holding company
Bakkavor Acquisitions 2008 Ltd.	United Kingdom	100%	Holding company
Italpizza Srl.	Italy	90%	Preparation and marketing of fresh prepared foods
Bakkavor USA Inc.	USA	100%	Holding company
Bakkavor USA Ltd.	United Kingdom	100%	Holding company
Two Chefs on a Roll Inc.	USA	100%	Preparation and marketing of fresh prepared foods
Bakkavor Estates Ltd.	United Kingdom	100%	Property managment
Bakkavor Central Finance Ltd.	United Kingdom	100%	Management company
Bakkavor Finance Ltd.	United Kingdom	100%	Management company
Bakkavor London Ltd.	United Kingdom	100%	Management company
Bakkavor Acquisitions Ltd.	United Kingdom	100%	Holding company
Bakkavor Jersey Ltd.	Jersey	100%	Holding company
Bakkavor Invest Ltd.	United Kingdom	100%	Holding company
Bakkavor (Jersey Two) Ltd.	Jersey	100%	Holding company
Bakkavor Ltd.	United Kingdom	100%	Holding company
Bakkavor Foods Ltd.	United Kingdom	100%	Preparation and marketing of fresh prepared foods
Notsallow 256 Ltd.	United Kingdom	100%	Preparation and marketing of fresh prepared foods
Exotic Farm Produce Ltd	United Kingdom	100%	Packaging and marketing of fresh produce
Exotic Farm Prepared Ltd	United Kingdom	100%	Preparation and marketing of fresh prepared foods
Heli Food Fresh A.S.	Czech Republic	100%	Preparation and marketing of fresh prepared foods
Anglia Crown 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
Bakkavor Traiteur AS	France	100%	Preparation and marketing of fresh prepared foods
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
S.B.L.P. SAS	France	100%	Preparation and marketing of fresh prepared foods
Financiere 4G SAS	France	100%	Preparation and marketing of fresh prepared foods
4G 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
Bakkavor European Marketing BV	Netherlands	100%	Holding company
Vaco BV	Belgium	100%	Preparation and marketing of fresh prepared foods
Bakkavor (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	80%	Holding company
Creative Food Group Ltd.	Hong Kong	100%	Holding company
Creative Food Holding Ltd.	Hong Kong	100%	Holding company
Creative Food (Hong Kong) Ltd.	Hong Kong	100%	Trading company
Beijing Creative Food Co. Ltd.	China	100%	Produce and manufactures salad products
Shanghai Creative Food Co. Ltd.	China	100%	Produce and manufactures salad products
Wuhan Creative Food Co. Ltd.	China	100%	Produce and manufactures salad products
Guangzhou Creative Food Co. Ltd.	China	100%	Produce and manufactures salad products
Xianyang Creative Food Ltd	China	100%	Produce and manufactures salad products
Creative Agriculture Holdings Ltd.	Hong Kong	100%	Holding company
Jiangsu Creative Agricult. Prod. Dev. Ltd.	China	100%	Produce and manufactures salad products
Anhui Creative Agriculture Prod. Dev. Ltd.	China	100%	Produce and manufactures salad products
Nantong Creative Agriculture Prod. Dev. Ltd.	China	100%	Produce and manufactures salad products
Yantai Longshun Ltd.	China	80%	Produce and manufactures salad products
Guangzhou Riweijian Ltd.	China	100%	Produce and manufactures salad products

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

Amounts in thousands of GBP

4. Quarterly statements

	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
Net sales	372,300	377,265	425,731	402,779	412,531
Cost of sales	(292,382)	(298,979)	(335,496)	(312,592)	(321,825)
Gross profit	79,918	78,286	90,235	90,187	90,706
Operating expenses	(56,506)	(62,522)	(66,080)	(70,405)	(85,932)
Restructuring costs	0	0	(3,100)	(1,677)	(36,957)
Share of (loss) profit in associates	(306)	221	(600)	109	(446)
Operating profit (loss) (EBIT)	23,106	15,985	20,455	18,214	(32,629)
Net finance costs	(12,018)	(13,573)	(23,608)	(12,350)	(14,433)
Other gains and (losses)	(2,470)	(1,546)	13,905	(9,599)	(53,728)
Loss on other financial assets	0	(15,793)	(30,378)	(16,341)	(449)
Profit (loss) before tax	8,618	(14,927)	(19,626)	(20,076)	(101,239)
Income tax	1,796	2,120	(3,770)	531	2,789
Profit (loss) for the period	10,414	(12,807)	(23,396)	(19,545)	(98,450)
EBITDA pre-restructuring costs	33,430	26,272	35,318	31,105	15,723
EBITDA post-restructuring costs	33,430	26,272	32,218	29,428	(3,810)
EBITDA ratio pre-restructuring costs	9.0%	7.0%	8.3%	7.7%	3.8%
EBITDA ratio post-restructuring costs	9.0%	7.0%	7.6%	7.3%	(0.9%)
Cash flow from (to) operating activities	23,434	(4,299)	19,795	28,775	(29,109)
Free cash generated by (to) operating activities	12,177	(16,031)	2,954	17,683	(38,557)

The quarterly statements have not been audited by the auditors.

5. Business and geographical segments

The Group operates in ten countries with over 6,000 products in 18 categories. Certain parts of the business are subject to seasonal fluctuations in sales. However, the Group operates a diversed portfolio of products that minimizes that effect.

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

	2008	2007
United Kingdom	1,388,670	1,338,774
Continental Europe	183,927	127,776
Rest of world	45,709	4,416
	1,618,306	1,470,966

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

	2008	2007
"Hot eating"	628,960	588,122
"Cold eating"	599,902	557,241
Traded produce and Continental Europe	389,444	325,603
	1,618,306	1,470,966

Amounts in thousands of GBP

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

	2008	2007
United Kingdom	22,096	106,793
Continental Europe	628	3,181
Rest of world	(699)	15
	22,025	109,989

6. Salaries

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

	2008	2007
Salaries	343,521	319,249
Related expenses	43,782	37,213
	387,303	356,462
Average number of employees	19,930	18,004

	Salary and board fee	Benefits	Pension	Shares*
Lýdur Gudmundsson, Chairman	24		1	** 855,166,183
Ágúst Gudmundsson, CEO	850	140	1	** 855,166,183
Antonios P. Yerolemou, Board member	24		1	74,534,353
Ásgeir Thoroddsen, Board member	24		1	1,418,164
Dionysos A. Liveras, Board member	24		1	*** 80,269,613
Hildur Árnadóttir, Board member****	85		6	3,500,000
Katrín Pétursdóttir, Board member	24		1	
Panikos J. Katsouris, Board member	24		1	52,336,471

As from 1 October 2008 Ágúst Gudmundsson's salary reduced 50% to GBP 500,000 per annum.

No member of the Board holds options, warrants or other rights.

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

** Ágúst Gudmundsson and Lýdur Gudmundsson in total hold control of 855,166,183 shares through Exista B.V. and related parties.

*** Dionysos A. Liveras in total holds control of 80,269,613 shares through Lauren and Alysia Investments.

**** Former CFO.

7. Fees to Auditors

	2008	2007
Audit of financial statements	469	388
Review of interim financial statements	188	179
Other services	904	1,071
	1,562	1,638

Amounts in thousands of GBP

8. Restructuring costs

	2008
Redundancy and other restructuring costs	19,164
Onerous property costs	5,146
Impairment of assets	17,424
	41,734

The restructuring costs are the cost of restructuring under-performing manufacturing sites and improve operational efficiencies in order to generate profitable growth in the long term. These costs include the costs of factory closures, staff redundancy and other related costs.

9. Net Finance costs

	2008	2007
Interest income	2,545	3,215
Dividend	37	302
Interest expenses	(66,545)	(54,768)
	(63,964)	(51,251)

10. Other gains and (losses) and loss on other financial assets

	2008	2007
Decrease in derivative financial instruments	(27,913)	(2,911)
Exchange rate adjustments	(23,055)	1,476
Loss on other financial assets	(62,961)	0
	(113,929)	(1,435)

The Group has experienced non cash losses from mark-to-market losses mainly relating in interest rate swaps.

The exchange rate losses and gains are as a result of foreign exchange movements on Euro and US Dollar denominated loans.

The Group has relinquished its economic interest in 10.9% shareholding in Greencore Group plc under CFD (Contract for Difference). Valuation decrease during the period amounted to GBP 58.5 million. The Group has also relinquished its 6.1% share in Camposol AS. Valuation decrease during the period amounted to GBP 4.5 million.

Amounts in thousands of GBP

11. Income tax

	2008	2007
Current tax	(2,988)	2,960
Deferred tax (note 20)	1,318	6,979
	(1,670)	9,939

Reconciliation of effective tax rate:

	2008		2007	
(Loss) profit before tax	(155,868)		57,303	
Tax calculated at domestic tax rate	(23,385)	15.0%	10,314	18.0%
Effect of different tax rates of other jurisdictions	(9,700)	6.2%	5,698	9.9%
Tax exempt revenues	(2,535)	1.6%	(2,682)	(4.7%)
Permanent differences for tax purposes	7,535	(4.8%)	40	0.1%
Utilisation of previously unrecognised tax losses/tax asset not recognised	7,300	(4.7%)	(2,025)	(3.5%)
Tax incentives not recognised in the income statement	0	0.0%	(1,600)	(2.8%)
Adjustments in respect of prior years	(3,565)	2.3%	0	0.0%
Abolition of industrial buildings allowances	22,300	(14.3%)	0	0.0%
Other changes	380	(0.2%)	193	0.3%
	(1,670)	1.1%	9,939	17.3%

12. (Loss) earnings per share

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

	2008	2007
(Loss) profit for the year attributable to shareholders of Bakkavör Group hf.	(153,872)	46,712
Total average number of shares outstanding during the period (in million)	2,148	2,154
(Loss) earnings per share (GBP pence)	(7.2)	2.2

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Amounts in thousands of GBP

13. Goodwill and other intangible assets

	Goodwill	Customer contracts	Total
Cost at 1 January 2007	708,006	5,922	713,928
Additions and assessment changes in fair value during the year	63,067	0	63,067
Amortisation during the year	0	(1,144)	(1,144)
Cost at 1 January 2008	771,073	4,778	775,851
Additions and assessment changes in fair value during the year	75,516	449	75,965
Amortisation during the year	0	(824)	(824)
At 31 December 2008	846,589	4,403	(850,992)
Carrying amount:			
At 31 December 2008	846,589	4,403	850,992

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	31.12.2008	31.12.2007
UK (a single CGU)	746,502	741,906
Europe (a single CGU)	61,391	20,255
Rest of world (a single CGU)	38,696	8,912
	846,589	771,073

The Group 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 Group 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 11 per cent has been used in discounting the projected cash flows.

The impairment test of goodwill did not result in impairment loss.

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

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

Licencing agreements	18 months
Customer contracts	4–10 years

Amounts in thousands of GBP

14. Property, plant and equipment

	Real estate	Equipment	Total
Cost at 1 January 2007	78,361	296,033	374,394
Accumulated depreciation at 1 January 2007	(9,666)	(60,970)	(70,636)
Book value at 1 January 2007	68,695	235,063	303,758
Acquisitions	2,501	21,023	23,524
Additions in 2007	12,381	32,913	45,294
Disposals in 2007	801	(1,061)	(260)
Depreciated 2007	(5,732)	(32,159)	(37,891)
Exchange differences	1,581	1,704	3,285
Cost at 1 January 2008	95,625	350,612	446,237
Accumulated depreciation at 1 January 2008	(15,398)	(93,128)	(108,526)
Reclass between class	(1,663)	1,663	0
Book value at 1 January 2008	78,564	259,147	337,711
Acquisitions	1,412	14,987	16,399
Additions in 2008	10,576	39,565	50,141
Disposals in 2008	0	(271)	(271)
Transfer to current assets (available for sale)	(2,800)	0	(2,800)
Depreciated 2008	(5,534)	(38,301)	(43,835)
Impairment of assets	(6,778)	(10,646)	(17,424)
Exchange differences	7,710	10,640	18,350
Book value at 31 December 2008	83,150	275,121	358,270

Insurance value of property, plant and equipment at year end amounts to GBP 1,003,7 million.

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

	2008	2007
Depreciation included in Cost of sales in the Consolidated Income Statement	32,461	29,162
Depreciation included in Operating expenses in the Consolidated Income Statement	11,374	8,728
Impairment included in Restructuring costs in the Consolidated Income Statement	17,424	0
	61,259	37,890

15. Interest in associates

Associates at 31 December 2008.

	Place of registration and operation	Interest	Principal activity
Bakkavor QV Ltd.	United Kingdom	55.0%	Marketing of fresh produce
Tropical Fresh Alimentos SA	Brazil	45.0%	Preparation and marketing of fresh prepared foods
Fram Foods hf.	Iceland	30.6%	Manufactures consumer packaged seafood
Interfruit (pty) Ltd.	South-Africa	30.0%	Preparation and marketing of fresh prepared foods
Gastro Primo Ltd.	Hong Kong	48.0%	Food and beverage supplier
La Rose Noire Ltd.	Hong Kong	45.0%	Preparation and marketing of pastry products

Amounts in thousands of GBP

16. Inventories

	31.12.2008	31.12.2007
Raw material and packaging	46,025	39,473
Work in progress	5,738	2,925
Finished goods	5,726	3,927
	57,489	46,325

Insurance value of inventories at the end of the period amounts to GBP 57.5 million.

17. Other financial assets

Trade and other receivables:

	31.12.2008	31.12.2007
Nominal value of trade receivables	199,646	170,872
Allowance for doubtful accounts	(2,544)	(3,338)
Pension asset (note 28)	400	18,000
Other receivables	65,017	59,816
	262,520	245,350

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

Ageing of receivables past due but not impaired:

	31.12.2008	31.12.2007
Not past due	150,138	116,263
Past due by 1-30 days	31,071	38,047
Past due by 31-60 days	8,985	8,227
Past due by 61-90 days	4,892	5,415
Past due by more than 90 days	4,560	2,920
	199,646	170,872

Movement in the allowance for doubtful accounts:

	31.12.2008	31.12.2007
Balance at beginning of the year	(3,338)	(2,972)
Impairment losses recognised on receivables	(1,120)	(1,835)
Amounts written off as uncollectible	400	684
Amounts recovered during the year	1,300	722
Impairment losses reversed	214	63
Balance at end of the year	(2,544)	(3,338)

Cash and cash equivalents:

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

Amounts in thousands of GBP

18. Assets classified as held for sale

	31.12.2008
Assets held for sale	2,800
	2,800

In 2008 the Group closed two factories in the UK that were surplus to requirements. A search is underway for buyers for these properties. No impairment was recognised on the reclassification of the properties as held for sale nor at 31 December 2008.

19. 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 Groups's own shares amounted to 9,836,000 ISK.

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

	31.12.2008	31.12.2007
Total share capital	14,932	14,932
Own shares	(78)	(78)
	14,854	14,854
Changes in share capital are as follows:		
Share capital at 1 January 2008	14,854	14,924
Changes during the year	0	(70)
Share capital at 31 December 2008	14,854	14,854

As at 31 December 2008, executives and senior employees held options over 40,305,417 ordinary shares (of which all are unvested), in aggregate, with all of those options expiring on 23.5.2011.

Share options granted under the employee share option plan carry no rights to dividends and no voting rights. Further details of the emploee share option plan are contained in note 29 to the financial statements.

20. Deferred income tax asset and liability

	Deferred tax asset	Deferred tax liability	Total
At 1 January 2008	1,919	(39,135)	(37,216)
Computed income tax for the year 2008	(1,791)	473	(1,318)
Deferred tax movement associated with pension asset movement	0	4,787	4,787
Income tax asset (liability) at 31 December 2008	129	(33,875)	(33,746)

Amounts in thousands of GBP

21. Dividends

The Annual General Meeting of Bakkavör Group, held on 14 March 2008, resolved to pay a dividend of 55% of nominal share value to shareholders. This corresponds to ISK 0.55 per share. Dividends were paid on 15 April 2008.

22. Non-current liabilities

	31.12.2008	31.12.2007
Borrowings in GBP	1,019,437	807,160
Borrowings in USD	54,720	10,665
Borrowings in EUR	80,995	0
Borrowings in NOK	5,069	0
Borrowings in other currencies	1,367	0
Less: borrowings due in less than year	(364,840)	(50,811)
	796,749	767,014

The borrowings are repayable as follows:

2008	–	50,811
2009	364,840	146,855
2010	119,529	106,853
2011	9,122	5,901
2012	622,053	505,750
2013	45,576	–
Later	468	1,655
	1,161,589	817,825

In borrowings due in less than one year there are GBP 180 million that have been refinanced or rescheduled since the year end. The borrowings will mature in March 2012.

Borrowings in total of GBP 756 million are secured over certain land, buildings and receivable of the Group.

23. Derivative financial instruments

The Group utilises currency derivatives, mainly forward exchange contracts and currency options, 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 Group is committed amounts to GBP 28.7 million.

The Group uses interest rate swaps, swaptions and collars 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 450.3 million.

Amounts in thousands of GBP

24. Mortgages and commitments

Operating lease commitments

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

	31.12.2008	31.12.2007
Not later than 1 year	13,131	16,663
Later than 1 year and not later than 5 years	26,281	41,559
Later than 5 years	66,476	58,629
	105,888	116,851

Capital commitments

Capital expenditure contracted for, but not provided for in these accounts, amounted to GBP 6.8 million.

Purchase commitments

The Group has purchase commitments for the next 12 months to guarantee supply and price in the amount of GBP 22.4 million.

25. Contingent liabilities

There are a number of legal claims or potential claims against the Group, 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 Group has granted its subsidiaries and associates guarantees amounting to GBP 112.5 million.

26 Financial risk management

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 22, cash and cash equivalents and equity attributable to equity holders, comprising issued capitala disclosed in note 19, reserves and retained earnings.

The Group manages its capital by collating timely and reliable information to produce various internal reports such as capital expenditure and weekly cash reports, which enable the board of directors to assess the Group's capital, and manage that capital effectively and in line with the Group's objectives. The gearing of the Group is constantly monitored and managed to ensure that the ratio between debt and equity is at an acceptable level and enables the Group to operate as a going concern and maximise stakeholders return.

When the Group considers an acquisition, the board of directors will decide on how to fund that acquisition either through debt, equity or a mixture of both. The board of directors will look at the Group's existing debt to equity ratio and the costs involved in financing debt or equity, before deciding on how to fund the proposed acquisition.

Amounts in thousands of GBP

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Categories of financial instruments

Financial assets	31.12.2008	31.12.2007
Derivative financial instruments at fair value through profit and loss	5,717	864
Trade receivables	197,102	167,534
Other debtors	59,701	76,952
Cash and cash equivalents	210,724	70,447
	473,244	315,797

Financial liabilities	31.12.2008	31.12.2007
Derivative financial instruments at fair value through profit and loss	35,280	2,514
Trade payables	197,101	195,918
Other creditors	205,223	148,716
Finance leases	14,037	15,214
Borrowings excluding finance leases	1,147,552	802,611
	1,599,193	1,164,973

The fair value of the financial assets approximates to their carrying value due to the short term nature of the receivables.

The directors use their judgement in selecting an appropriate valuation technique for derivatives that are designated and effective as hedging instruments carried at fair value, but that are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied and assumptions are made based on quoted market rates adjusted for specific features of the instrument.

The fair value of other financial liabilities at amortised cost approximates to their carrying value. The trade and other payables approximate to their fair value due to the short term nature of the payables. The finance lease fair value approximates to the carrying value based on discounted future cash flows.

Financial risk management

The Group is exposed to a number of financial risks such as access to and cost of funding, interest rate exposure, currency exposure and working capital management. The Group seeks to minimise these risks where possible and does this by constantly monitoring, reviewing, effective management and using derivative financial instruments. Use of financial instruments is governed by Group policies which are approved by the board of directors. The treasury function does not operate as a profit centre, makes no speculative transactions and only enters into or trades financial instruments for specific purposes.

To make sure the management of those financial risks faced by the Group remain effective, it is very important that any new businesses that are acquired by the Group are immediately integrated. This means the new business is providing timely and accurate information to the central Treasury department, so they can produce Group reports on key financial risks that do reflect the ultimate position of the Group at that time.

Amounts in thousands of GBP

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

• interest rate swaps, swaptions and collars to mitigate the risk of rising interest rates.

• forward foreign exchange contracts to hedge the exchange rate risk arising on revenues and purchases in foreign currencies and on a translational level in the translation of overseas operations.

Market risk exposures are supplemented by sensitivity analysis. There has been no change to the group's exposure to market risks or the manner in which it manages and measures the risk.

Interest rate risk management

The Group is exposed to interest rate risk on borrowings. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings. Interest risk management balances debt financing as a tool to improve the returns through leverage in the capital structure with the potential for an increase in interest rates to impact profits negatively. At the year end 49% of the Group's borrowings were covered by interest rate swaps and collars (2007: 83%). The remaining borrowings were at floating rates. Board approval is required for the use of any interest rate derivative.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates. A 100 basis point increase or decrease in interest rates represents management's assessment of the possible change in interest rates and is used when reporting interest rate risk internally to key management personnel.

In the following estimate the GBP forward Libor yield curve is used to calculate the implied forward rates to estimate the market expectations of interest rates for the next 12 months.

The amounts generated from the sensitivity analysis are estimates of the impact of change in interest rates by 100 basis points. Actual results in the future may differ materially from these results due to developments in the global financial markets which may cause fluctuations in interest rate to vary from the hypothetical amounts. Tax effects are disregarded in the sensitivity analysis.

In the sensitivity analysis all variables other than interest rate were held constant. The effects reflect 12 months accumulated interests.

	Profit or loss		Equity	
	2008	2007	2008	2007
Effects of 100 basis points increase in interest rate	(2,383)	(2,700)	(2,383)	(2,700)
Effects of 100 basis points decrease in interest rate	4,810	3,760	4,810	3,760

The Group's sensitivity to interest rates has increased during the current period mainly due to increased borrowings that are not covered by interrest rate swaps. Interest expenses/income is under no circumstances transferred directly into equity and therefore the effects on Profit or loss and Equity in the sensitivity analysis will be equal.

Interest rate hedging contracts

Amounts in thousands of GBP

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk and option price inherent in the contract. The average interest rate is based on the outstanding balances at the start of the financial year. Interest rate contracts are carried at fair value through profit or loss.

The following table details the notional principal amounts, fair value and average contracted fixed interest of interest rate hedging contracts outstanding as at the reporting date:

Outstanding floating for fixed contracts	Average contracted fixed interest rate 2008	2007	Notional principal amount 2008	2007	Fair value 2008	2007
Collars	4.37%–5.75%	4.37%–5.38%	100,000	198,156	(5,000)	251
Cancelable swaps	4.90%–5.17%	4,96%	300,000	300,000	(24,130)	(2,765)
Interest rate swap	5,41%		50,311		(6,150)	

The interest rate swaps settle on a quarterly basis. The difference between fixed and floating interest rate is settled on a net basis.

Foreign currency risk management

The Group's main operating entities functional currencies and the Group´s presentational currency is pounds sterling. The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The Group's net exposure on monetary assets and monetary liabilities denominated in foreign currencies at the reporting date is as follows:

	Net currency exposure 2008	2007
EUR	(95,262)	(1,853)
ZAR	160	229
USD	(60,741)	5,161
ISK	(304)	(83)
NOK	5,069	–

Foreign currency sensitivity

The following table details the Group's sensitivity to a 10% strengthening and weakening in the GBP against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and equity where the GBP strengthens 10% against the relevant currency. For a 10% weakening of the GBP against the relevant currency, there would be an opposite impact on the profit and equity, and the balances below would be negative. Tax effects are disregarded in the sensitivity analysis.

	10% Strengthening 2008	2007	10% Weakening 2008	2007
EUR	10,585	206	(8,660)	(168)
ZAR	(18)	(25)	15	21
USD	6,749	573	(5,522)	(469)
ISK	34	9	(28)	(8)
NOK	563	–	(461)	–

The Group's sensitivity to foreign currency has increased during the current period mainly due to new borrowings in EUR and USD.

Amounts in thousands of GBP

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange rate contracts and currency option contracts to hedge against foreign currency fluctuations. During the year 2008 the Group hedged 55% of its foreign currency net cash flow with forwards and options. Foreign currency contracts are carried at fair value through profit or loss.

The following table details the forward foreign currency contracts outstanding as at reporting date:

Outstanding	Average exchage rate %		Foreign currency		Contract value		Fair value	
contracts	2008	2007	2008	2007	2008	2007	2008	2007
Buy Euros			EUR'000	EUR'000				
Less than 3 months	1.2648	1.4292	21,468	20,325	17,166	14,281	3,347	700
3 to 6 months	1.2563	1.3819	172	930	137	672	28	15
6 to 12 months	1.2570	1.3812	1,412	3,497	1,125	2,532	229	64
Buy US Dollars			USD'000	USD'000				
Less than 3 months	1.6594	2.0418	343	750	206	367	30	9
3 to 6 months	1.5307	2.0344	100	2,205	65	592	4	18
6 to 12 months	1.5325	2.0261	100	1,790	65	884	4	17
Buy Rand			ZAR'000	ZAR'000				
Less than 3 months	–	14.29	–	14,700	–	1,021	–	58
3 to 6 months	–	14.78	–	15,000	–	1,016	–	69
					18,764	21,365	3,642	950

The following table details the forward foreign currency option contracts outstanding as at reporting date:

Outstanding	Average strike exchage rate %		Foreign currency		Contract value		Fair value	
contracts	2008	2007	2008	2007	2008	2007	2008	2007
Buy US Dollars			USD'000	USD'000				
Less than 3 months	1.92	1.97	3,000	33,250	1,558	16,573	492	(56)
3 to 6 months	1.92	1.95	3,250	3,250	1,688	1,665	531	(56)
6 to 12 months	1.92	1.95	3,500	6,250	1,818	3,202	568	(82)
Over one Year	–	1.92	–	9,750	–	5,065	–	(33)
Buy Rand			ZAR'000	ZAR'000				
Less than 3 months	15.29	14.50	53,604	55,400	3,500	3,400	368	102
3 to 6 months	15.30	14.52	21,400	33,650	1,400	2,300	116	39
					9,964	32,205	2,075	(86)

Credit risk management

Credit risk refers to the risk of financial loss to the group if counterparty defaults on its contractual obligations of the loans and receivables at amortised cost held in the balance sheet.

The Group's main credit risk is attributable to its trade receivables. The Group's top five customers, all leading UK retailers continue to represent more than 82% of the Group's revenue. These customers have hold favourable credit ratings and consequently reduce the credit risk for the Group's overall trade receivables.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with good credit ratings assigned by international credit rating agencies. Group policy dictates the Group deals with banks that have a minimum 'A' credit rating and that Group deposits are shared between banks to spread the risk. Currently Group deposits are shared between banks that are current counterparties in the Group's secured committed bank facilities.

Amounts in thousands of GBP

Processes are in place to manage receivables and overdue debt and to ensure that appropriate action is taken to resolve issues on a timely basis. Credit control operating procedures are in place to review all new customers. Existing customers are reviewed as management become aware of changes of circumstances for specific customers. The amounts presented in the balance sheet are net of appropriate allowance for doubtful trade receivables, specific customer risk and assessment of the current economic environment. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

The Group's maximum exposure to credit risk without taking into account value of any collateral obtained is represented in the table below:

	Maximum credit risk	
Financial assets and other credit exposures	2008	2007
Trade and other receivables	262,520	245,350
Cash and cash equivalents	210,724	70,447
Guarantees to third parties	7,559	8,691
	480,803	324,488

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	2009	2010	2011	2012	Later	Total
Liabilities						
Interest bearing	364,840	119,529	9,122	622,053	46,044	1,161,589
Non-interest bearing	437,604					437,604
	802,444	119,529	9,122	622,053	46,044	1,599,193
Assets						
Interest bearing	210,724					210,724
Non-interest bearing	262,520					262,520
	473,244	0	0	0	0	473,244

Subsequent to the year end, the Group has entered into negotiations with lenders and refinanced its borrowings through to 30 March 2012 across all of the operating subsidiaries. For further detail refer to note 32.

Amounts in thousands of GBP

27. Acquisitions

The following table sets out the book values of the identifiable assets and liabilities acquired in the last twelve months and their fair value to the Group:

	Other acquisitions
Tangible assets	16,399
Inventories	5,564
Debtors	10,225
Cash	3,601
Total assets	35,789
Bank loans	(9,787)
Taxation	102
Other creditors	(21,769)
Total liabilities	(31,454)
Net assets	4,335
Minority interest	(484)
Goodwill	64,238
Other intangible assets	449
	68,538
Satisfied by:	
Direct costs relating to acquisition	2,537
Cash consideration	49,252
	51,789

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

Cash consideration	(51,789)
Cash at bank and in hand acquired	3,601
Less: cash in bank allocated to minority interest	(316)
Deferred payments	(16,749)
	(65,253)

Reconciliation to net cashflow from acquisitions

Cash consideration	(51,789)
Cash at bank and in hand acquired	3,601
Less: cash in bank allocated to minority interest	(316)
Deferred consideration paid on previous acquisitions	(8,628)
	(57,132)

In accordance with the relevant IFRS standard, the Group has carried out an assessment of the fair value of the assets and liabilities of each of the businesses and companies acquired in the last twelve months. 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.

Amounts in thousands of GBP

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

If other acquisitions had been completed on the first day of the financial year, the Group's operating profit for the period would have been GBP 1.5 million higher.

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

28. Pension

The Group 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 Group.

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 Group (full time or part time).

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

	2008	2007
UK defined benefit plan net charge	3,600	1,000
UK defined contribution plan net charge	200	271
Overseas net charge	300	110
	4,100	1,381

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 2008.

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:

	31.12.2008		31.12.2007	
	Expected rate of return	Estimated bid value	Expected rate of return	Estimated bid value
UK equities	7.8%	51,700	8.0%	81,500
Overseas equities	7.8%	31,600	8.0%	36,800
Corporate bonds	6.5%	27,700	5.8%	28,500
UK government bonds	3.7%	7,000	4.6%	7,100
Property	6.9%	9,900	6.6%	14,700
		127,900		168,600
Present value of scheme liabilities		(127,500)		(150,600)
Surplus in scheme		400		18,000
Related deferred taxation liability		(100)		(5,040)
Net pension asset		300		12,960

Amounts in thousands of GBP

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.

	31.12.2008	31.12.2007
Rate of increase in salaries	4.3%	4.9%
Rate of increase for pensions in payment and deferred pensions	2.8%	3.4%
Expected return of scheme assets	7.2%	7.4%
Discount rate	6.5%	5.8%
Inflation assumption	2.8%	3.4%

The amount charged to the Group's operating profit under IAS 19 of 3.6 million is analysed as follows:

	2008	2007
Current service cost	(5,300)	(4,000)
Interest on pension scheme liabilities	(8,600)	(7,100)
Expected return on assets in the pension scheme	10,300	10,100
	(3,600)	(1,000)

Analysis of the amount taken directly to the statement of the recognised income:

	2008	2007
Loss on assets	(51,300)	(200)
Experienced gain (loss) on liabilities	4,900	(8,700)
Gain on change of assumptions (financial and demographic)	29,300	7,300
Actuarial Loss	(17,100)	(1,600)

Analysis of the movement in the surplus in the scheme during the year:

	2008	2007
Surplus in the scheme at 1 January 2008	18,000	17,700
Contributions paid	3,100	2,900
Current service cost	(5,300)	(4,000)
Net financial return	1,700	3,000
Actuarial loss	(17,100)	(1,600)
Surplus in the scheme carried forward	400	18,000

History of experienced gains and losses:

	2008	2007
Deficit between actual and expected return on scheme assets	(51,300)	(200)
% of scheme asset at the end of the year	40.1%	0.1%
Experienced loss on scheme liabilities	(200)	(8,700)
% of scheme liabilities at end of the year	3.8%	5.8%
Actuarial loss recognised in statement of recognised income and expense	(17,100)	(1,600)
% of scheme liabilities at the end of the year	13.4%	1.1%

Amounts in thousands of GBP

29. Share-based payments

The Group has an ownership-based compensation scheme for executives and senior employees of the Group. In accordance with the provisions of the plan, as approved by shareholders at previous general meeting, executives and senior employees in the Group may be granted options to purchase ordinary shares at an exercise price of ISK 36.0 per ordinary share.

Each employee share option converts into one ordinary share of Bakkavör Group hf. on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted is calculated in accordance with the performance-based formula approved by shareholders at a previous annual general meeting and is subject to approval by the Remuneration Committe.

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Option series	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
Issued 23 May 2008 (*)	41.694.568	23/05/08	23/05/11	ISK 36.0	ISK 32.3

(*) In accordance with the terms of the share-based arrangement, option issued on 23 May 2008 will vest after 3 year service period.

The weighted average fair value of the share options granted during the financial year is ISK 12.19 (GBP 0.07567). Options were priced using the Black-Scholes option pricing model.

Expected volatility is based on the historical share price volatility over the past 5.5 years. It was assumend the executives and senior employees would exercise the options at the end of the exercise period.

Inputs in the model	Option series Series 1
Grant date share price	ISK 32.3
Exercise price	ISK 36.0
Expected volatility	21.0%
Option life	5 years
Risk-free interest rate	10.4%

The following reconciles the outstanding share options granted under the employee share option plan at the beginning and end of the financial year:

2008	Number of options	Weighted average exercise price
Granted during the financial year	41,694,568	ISK 36.0
Forfeited during the financial year	(1,389,151)	ISK 36.0
Balance at the end of the financial year	40,305,417	ISK 36.0
Exercisable at the end of the financial year	–	–

Balance at end of the financial year

The shares option outstanding at the end of the financial year had an exercise price of ISK 32.3 and a weighted average remaining contractual life of 873 days.

Amounts in thousands of GBP

30. Other matters

The Group has a GBP 700 million multi currency credit revolving facility (RCF). At 31 December there were GBP 613 million of drawn borrowings against the RCF. The Group has available a USD 26 million loan revolving facility which is fully drawn. In addition the Group has available a GBP 54 million multi currency loan revolving facility which is fully drawn.

For further details of the Group´s financing arrangements see note 32.

The Group has purchased a business interruption insurance to the amount of GBP 1,174 million.

31. Related party transactions

The following transactions were carried out with related parties:

Tjarnargata 35 ehf.

Rent paid:	2008	2007
Tjarnargata 35 ehf.	18	21

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:	2008	2007
Katsouris Brothers Ltd.	43	94
Purchases of goods and other services:		
Katsouris Brothers Ltd.	6,402	7,315
Rent paid:		
AP Yerolemou and Others	288	288

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.

Amounts in thousands of GBP

Exista BV and related parties

Rent paid (received):	2008	2007
Exista hf.	13	19
Exista UK Ltd.	(705)	(705)
	(692)	(686)

Finance charge:	2008	2007
Exista hf.	(337)	0

Debt:	2008	2007
Exista hf.	(6,096)	0

Bakkavör relinquished its 6.1% share in Camposol AS held under a forward equity contract with Exista. This resulted in a GBP 4.5 million loss for the Group.

Associates

Sales of goods and services:	2008	2007
Sales to associates	742	969
Purchases of goods and other services:		
Purchases from associates	670	1,372

The above transactions were carried out on commercial terms

32. Events after the Balance Sheet date

The directors renegotiated the GBP 700 million RCF in the first quarter of 2009 which lead to an amended agreement being signed on 24 March 2009. The facility expires on 30 March 2012 and this remained unchanged at 31 March 2009.

In the last quarter of 2008 the directors of Bakkavor China Ltd. entered into negotiations with its banks and the bank borrowings were refinanced on 27 March 2009 with the loans being extended to 30 March 2012. In March 2009 Bakkavor China Ltd. obtained a guarantee from the Bakkavor London Ltd. group for interest costs to a maximum of USD 6 million over the loan period. In addition Bakkavor London Ltd. and Bakkavor Holdings Ltd. had granted subordinated guarantees to the Bakkavor China Ltd banks of USD 7 million and USD 5 million respectevely.

During the last quarter of 2008 Bakkavor Acquisitions 2008 Ltd. entered into negotiations with its lender and the borrowings have been refinanced with the loan being extended to 30 March 2012. In addition Bakkavor Holdings Ltd. had granted a subordinated guarantee to the Bakkavor Acquisitions 2008 Ltd. bank of GBP 20 million.

Discussions with the Bondholders and other creditors of Bakkavör Group hf. are ongoing and constructive. Bakkavör has had strong indications of support for an extension of both the 2003 and 2005 bonds from key bondholders.

33. Approval of the Consolidated Financial Statements

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 31 March 2009.

Amounts in thousands of GBP

Glossary of general terms

This glossary of some specific financial and business terms used in this year's report is not exhaustive and many of the definitions have been interpreted from a Bakkavör Group perspective and so may not be pertinent to other businesses or countries.

AC Nielsen
An international marketing research company

Actuarial valuation
Professional assessment of the funding position of a company's pension scheme, based on assumptions regarding future events (including average lifespan of members, returns on the different investment types etc).

Amortisation
Depreciation of an intangible asset – for Bakkavör, the cost of goodwill spread over the number of years which are judged to benefit.

Associate/ Associated company
Entity over which Bakkavör Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence means the power to participate in the financial and operating policy decisions of the investee but not to have control or joint control over those policies.

Base rate
Annual interest rate on which lending charges are calculated by British banks.

Basis point
One hundredth of a percentage point (0.01%), used in quoting movements in interest rates or yields on securities.

Book value
The net value of assets or liabilities (cost, less any amounts written off) held in the books of account at a point in time.

Bond
A certificate of debt issued to raise funds. Bonds typically pay a fixed rate of interest and are repayable at a fixed future date.

CAGR (Compound Annual Growth Rate)
The year-over-year growth rate over a specified period of time.

Capital commitment
The situation where a company has contractually agreed to undertake some capital expenditure before the period end, but the money has not yet been spent nor the asset received.

Capital expenditure (Capex)
Payment for acquisition of a longer-term asset e.g. buildings, machinery.

Cash flow
A measure of the actual cash generated by the business rather than accounting profit. Free cash generated by operating activities is defined as the amount of cash generated after meeting all its obligations for interest, tax and after investments in tangible assets.

Consumer Price Index (CPI)
A basket of goods/services whose price is calculated monthly and which provides a broad measure of the level of inflation.

Continuing
Describes the ongoing element of a company's results and excludes the results of disposed or discontinued activities.

Corporate governance
The code of conduct by which the Group is directed and controlled.

Courtauld Commitment
A voluntary agreement which numerous major grocery organisations in the UK have adopted with the aim of reducing the amount of packaging waste by 2010 – www.wrap.org.uk/retail/courtauld_commitment/index.html

Datamonitor
Business information company, specialising in industry analysis.

Defra
A UK Government Department for the Environment, Food and Rural Affairs that fights climate change and greenhouse gas emissions further to working on securing a healthy, resilient, productive and diverse natural environment – www.defra.gov.uk

Deferred tax
See Corporation tax.

Depreciation
The systematic allocation of the depreciable amount of an asset over its useful life. For an intangible asset, this is generally referred to as amortisation.

Derivatives
Financial instruments (for Bakkavör Group, mainly foreign currency forward contracts) to hedge risks associated with foreign currency fluctuations.

Dividends
The proportion of a company's profits paid to shareholders, usually declared as a dividend per share.

Earnings
Profit available to ordinary shareholders, after all operating expenses, interest charges, taxes and preference dividends have been deducted.

Earnings per share (EPS)
Earnings divided by the number of ordinary shares in issue.

EBIT
Earnings (as above) Before Interest and Tax.

EBITDA
Earnings (as above) Before Interest, Tax, Depreciation and Amortisation.

Effective tax rate (%)
See Income tax.

Equity Ratio
Used to describe the relationship between debt and equity. Calculated by dividing the company net debt by the shareholders' equity.

Ethical Trading Initiative
An alliance of companies, non-government organisations and trade unions working to promote and improve the implementation of corporate codes of practice which cover supply chain working conditions. www.ethicaltrade.org.

Executive Directors
Board Directors who are also full-time employees of the company and have management responsibility.

Fairtrade
An alternative approach to conventional international trade. It is a trading partnership which aims at sustainable development for excluded and disadvantaged producers. It seeks to do this by providing better trading conditions, by awareness raising and by campaigning. www.fairtrade.org.uk

Financial Supervisory Authority (FSA)
Icelandic state authority whose role is to ensure that the activities of parties (e.g. financial institutions) subject to supervision are in accordance with laws and regulations and are consistent with sound and proper business practices. www.fme.is

Food Standards Agency (FSA)
An independent UK Government department set up by an Act of Parliament in 2000 to protect the public's health and consumer interests in relation to food. www.food.gov.uk

Functional currency
A company's working currency. For Bakkavör Group, GBP.

Gangmasters Licence
A licence temporary labour providers in the UK are required to obtain in order to operate legally in the agriculture, food processing and packaging sectors. www.gla.gov.uk

GBP
Pound sterling. The UK's official currency.

GDP
Gross Domestic Product.

Goodwill
The excess of the cost of acquisition over the company's interest in the fair value of the identifiable assets and liabilities at the date of acquisition.

Hedging
Reducing exposure to risk of loss resulting from fluctuations in exchange rates, commodity prices, interest rates etc. Typical tools include forward foreign exchange contracts and interest rate swaps.

Impairment
Impairment write-downs are made when the carrying amount of an asset or a cash generating unit exceeds the higher of the estimated value in use and the fair value less costs of disposal.

Income tax
The tax on company profits or losses. This is influenced by the tax rate applicable to the size of the company and the level of profits and any differences between accounting treatment and tax treatment. This gives rise to the effective tax rate, which expresses tax payable as a percentage of profit. Deferred tax relates to the tax that may be payable in future as a result of the differences between accounting treatments and tax treatments adopted to date.

Institute of Grocery Distribution (IGD)
Research organisation for the UK food and grocery industry. www.igd.com.

Interest cover
The number of times a company could pay its most recent interest charges out of its net profit after tax.

International Financial Reporting Standards (IFRS)
Set of accounting standards, currently issued by the International Accounting Standards Board (IASB). Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (IAS).

International Labour Organisation (ILO)
The United Nation's specialised agency which seeks the promotion of social justice and internationally recognised human and labour rights. www.ilo.org

ISK
Icelandic Króna. Iceland's official currency.

Joint venture
Contractual arrangement whereby a company and other parties undertake an economic activity that is subject to joint control, i.e. the strategic financial and operating policy decision relating to activities requires the unanimous consent of the parties sharing control.

LIBOR
London Inter Bank Offered Rate – the rate of interest at which banks will lend in the inter-bank market.

Management Board
Bakkavör Group's executive operational team.

Market capitalisation
Value at current market prices of a company's share capital. Calculated by multiplying current share price by the number of shares in issue.

Minority interests
Arise when subsidiary undertakings are not 100% owned by the parent company. Amounts reflecting the share of the results in the period, or assets at the balance sheet date, of the subsidiaries that are not attributable to the group.

Mintel
Global supplier of consumer, media and market research.

Net debt
The excess of the company's borrowings over its cash and liquid resources.

Office for National Statistics (ONS)
The government department that provides UK statistical and registration services. www.statistics.gov.uk

Organic growth
Growth achieved by increasing the scale of business by internal activities as opposed to acquiring other established businesses.

Price sensitive information (PSI)
Any information which if in the public domain could cause the share price to move.

Quick ratio
A measure of a company's liquidity and ability to meet its obligations. Quick ratio (or acid test ratio) is obtained by subtracting inventories from current assets and then dividing by current liabilities.

Record date
The date on which a shareholder should be entered on the company's share register to qualify for a dividend payment.

Renminbi (RMB)
The currency of the People's Republic of China, the base unit of which is the yuan (CNY).

Retail Price Index (RPI)
A basket of goods/services whose price is calculated monthly and which provides a broad measure of the level of inflation.

SAXESS
Electronic trading system used on the OMX Exchanges (Copenhagen, Stockholm, Helsinki, Iceland, Tallinn, Riga and Vilnius Stock Exchanges).

SEDEX
Ethical Data Exchange (SEDEX) – a not for profit organisation which aims to be recognised throughout global supply chains as the first choice for the collection, management, analysis and reporting of ethical data – www.sedex.org.uk

Shareholder value
The value a company generates for shareholders in terms of both dividends and growth in the company's share price.

Sharesave scheme
A savings related share option scheme whereby employees are granted an option to purchase shares in the company after a certain time period, usually at a discount of up to 20% to the market price at date of grant. Employees save regularly to accumulate the funds to exercise the option.

Taylor Nelson Sofrès (TNS)
Global market information group. www.tnsinfo.com

World Health Organisation (WHO)
A specialised agency of the United Nations that acts as a coordinating authority on international public health.

Working capital
The cash that the business has tied up in funding day to day operations – this includes the value of the stock it holds, the amount owed to it in trade debts by customers less any amounts that are funded by our suppliers/creditors in the form of our trade debts to them.

World Bank
The World Bank is made up of two unique development institutions owned by 185 member countries—the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Each institution plays a different but supportive role in the World Bank's mission of global poverty reduction and the improvement of living standards. www.worldbank.org

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Corporate information

Bakkavör Group hf.

Bakkavör Group Head Office
Ármúli 3
108 Reykjavík
Iceland
Tel: +354 550 9700
Fax: +354 550 9701

UK Office
West Marsh Road
Spalding
Lincolnshire
PE 11 2BB
United Kingdom
Tel: +44 1775 761111

Bakkavör Group website:
www.bakkavor.com

Principal bankers
Barclays Capital
Royal Bank of Scotland PLC
Rabobank International, London Branch
Mizuho Corporate Bank, Ltd.

Auditor
Deloitte hf.
Stórhöfdi 23
110 Reykjavík
Iceland

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