Consolidated Financial Statements

2008

Bakkavör Group hf.
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Reg.no. 410886-1629

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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.

Endorsement by the Board of Directors and CEO, cont.

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
State Authorised Public Accountant

Birkir Leósson
State Authorised Public Accountant

Consolidated Income Statement for the year 2008

	Notes	Fourth quarter 1 October - 31 December 2008	2007	Twelve months 1 January - 31 December 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

	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 amortization	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:			
Free cash generated by operating activities		(33,951)	59,964
Non-cash transactions:			
Buy-back of ordinary shares with new loan			4,594

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.

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 recognized immediately in profit or loss and is not subsequently reversed.

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the 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 amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

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

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the 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 recognized immediately in equity.

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

Contributions to other 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.

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 financial assets	0	(15,793)	(30,378)	(16,341)	(449)
Profit before tax	8,618	(14,927)	(19,626)	(20,076)	(101,239)
Income tax	1,796	2,120	(3,770)	531	2,789
Profit 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

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

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 on interest rate swaps 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.

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	
	(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 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

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
Amortization 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
Amortization 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 amortized. These intangible assets will be amortized on a straight line basis over their useful lives.

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

Licencing agreements	18 months
Customer contracts	4 - 10 years

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 Income Statement is specified as follows:

	2008	2007
Depreciation included in Cost of sales in the Income Statement	32,461	29,162
Depreciation included in Operating expenses in the Income Statement	11,374	8,728
Impairment included in Restructuring costs in the 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

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.

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 company'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 stetements.

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)

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:

	31.12. 2008	31.12. 2007
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.

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 company 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.

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

	31.12. 2008	31.12. 2007
Financial assets		
Derivitive 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		
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 as detailed in the directors' report. 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.

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

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		Notional principal amount		Fair value	
	2008	2007	2008	2007	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.
Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and currency options.

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 equal and opposite impact on the profit and equity, and the balances below would be negative. Tax effects are disregarded in the sensitivity analysis.

	10% Strengthening		10% Weakening	
	2008	2007	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.

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 exchange rate %		Forreign 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	1,205	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 exchange rate %		Forreign 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	35,650	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.

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
2008						
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.

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.

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

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%
Experience 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%

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 appoved 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 Remmuneration 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	23.5.2008	23.5.2011	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.

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.

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

	2008	2007
Sales of goods and services:		
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.