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Interim Consolidated Financial Statements

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**31 March 2007**

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Bakkavör Group hf.  
Ármúla 3  
108 Reykjavík  
Reg.no. 410886-1629

**Table of Contents**

Endorsement by the Board of Directors and CEO	2
Consolidated Income Statement	3
Consolidated Balance Sheet	4
Consolidated Statement of Changes in Equity	5
Consolidated Cash Flow Statement	6
Notes to the Interim Consolidated Financial Statements	7-12

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## Endorsement by the Board of Directors and CEO

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The Board of Directors and the CEO of Bakkavör Group hf. are of the opinion that the Interim Consolidated Financial Statements for the first three months of 2007 contain all the information necessary to form a clear picture of the company's standing at 31 March, the period's operating results and the period's financial development.

The Board of Directors and the CEO of Bakkavör Group hf. hereby confirm the Interim Consolidated Financial Statements for the first three months of 2007 with their signature.

Reykjavík, 26 April 2007

### Board of Directors and CEO

Lýdur Gudmundsson  
Chairman

Ágúst Gudmundsson  
CEO

Antonios P. Yerolemou

Ásgeir Thoroddsen

Dionysos Andreas Liveras

Katrín Pétursdóttir

Panikos J. Katsouris

# Consolidated Income Statement

## for the period 1 January to 31 March 2007

	Notes	First quarter 1 January - 31 March	
		2007	2006
Net sales .....	5	349,354	258,606
Cost of sales .....		<u>(265,587)</u>	<u>(190,281)</u>
<b>Gross profit</b> .....		83,767	68,325
Other operating income .....		7	5
Operating expenses .....		(58,438)	(49,470)
Share of profit (loss) in associates .....		25	(402)
		<u>(58,406)</u>	<u>(49,867)</u>
<b>Operating profit</b> .....		25,361	18,458
Net finance costs .....	6	<u>(12,367)</u>	<u>(10,452)</u>
<b>Profit before tax</b> .....		12,994	8,006
Income tax .....		<u>(3,094)</u>	<u>(1,976)</u>
<b>Profit for the period</b> .....		<u>9,900</u>	<u>6,030</u>
<b>Attributable to:</b>			
Shareholders of Bakkavör Group hf. ....		9,648	5,811
Minority interest .....		252	219
		<u>9,900</u>	<u>6,030</u>
Earnings per share (GBP pence) .....	7	0.45	0.36

# Consolidated Balance Sheet at 31 March 2007

	Notes	31.3.2007	31.12.2006
<b>Non-current assets</b>			
Goodwill and other intangible assets .....	8	713,617	713,928
Property, plant and equipment .....	9	305,620	303,758
Investments in joint ventures and associates .....	10	7,405	7,395
Deferred income tax asset .....		4,078	3,797
		<u>1,030,720</u>	<u>1,028,878</u>
<b>Current assets</b>			
Inventories .....	11	31,815	35,767
Trade and other receivables .....		220,421	221,467
Cash and cash equivalents .....		44,824	39,695
		<u>297,060</u>	<u>296,929</u>
<b>Total assets</b>		<u><u>1,327,780</u></u>	<u><u>1,325,807</u></u>
<b>Equity</b>			
Share capital .....	12	14,924	14,924
Capital reserves .....		77,154	77,154
Translation reserves .....		(1,448)	(1,437)
Retained earnings .....		154,499	149,307
<b>Shareholders' equity</b>		<u>245,129</u>	<u>239,948</u>
<b>Minority interest</b> .....		<u>1,751</u>	<u>1,499</u>
<b>Total equity</b>		<u><u>246,880</u></u>	<u><u>241,447</u></u>
<b>Non-current liabilities</b>			
Deferred income tax liability .....		35,225	33,237
Borrowings .....		687,464	682,440
		<u>722,689</u>	<u>715,677</u>
<b>Current liabilities</b>			
Current maturities of non-current liabilities .....		31,497	33,094
Other current liabilities .....		326,714	335,589
		<u>358,211</u>	<u>368,683</u>
<b>Total equity and liabilities</b>		<u><u>1,327,780</u></u>	<u><u>1,325,807</u></u>
<b>Off Balance Sheet Items:</b>			
Mortgages and commitments .....	15		

## Consolidated Statement of Changes in Equity for the period ended 31 March 2007

	Shareholders' equity						Total equity
	Share capital	Capital reserves	Translation reserves	Retained earnings	Total	Minority interest	
Equity 1 January 2006 .....	10,813	38,416	(484)	78,471	127,216	136	127,352
Translation reserves .....			(108)		(108)		(108)
Actuarial gain recognised on pension plan .....				8,700	8,700		8,700
Dividends .....				(3,281)	(3,281)		(3,281)
Profit for the period .....				5,811	5,811	219	6,030
Equity 31 March 2006 .....	<u>10,813</u>	<u>38,416</u>	<u>(592)</u>	<u>89,701</u>	<u>138,338</u>	<u>355</u>	<u>138,693</u>
	Share capital	Capital reserves	Translation 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 .....			(11)		(11)		(11)
Actuarial gain recognised on pension plan .....				3,800	3,800		3,800
Dividends .....				(8,256)	(8,256)		(8,256)
Profit for the period .....				9,648	9,648	252	9,900
Equity 31 March 2007 .....	<u>14,924</u>	<u>77,154</u>	<u>(1,448)</u>	<u>154,499</u>	<u>245,129</u>	<u>1,751</u>	<u>246,880</u>

# Consolidated Cash Flow Statement for the period 1 January to 31 March 2007

	Notes	2007 Q1	2006 Q1
<b>Cash flow from operating activities</b>			
Operating profit .....		25,361	18,458
Depreciation and amortization .....	8, 9	9,716	8,849
Other items .....		(1,257)	(12)
Changes in current assets and liabilities .....		4,342	858
<b>Cash generated from operations</b>		<b>38,162</b>	<b>28,153</b>
Payments of interest income and interest expense .....		(9,166)	(7,156)
Payments of tax .....		(931)	(1,565)
<b>Cash flow from operating activities</b>		<b>28,065</b>	<b>19,432</b>
<b>Investing activities</b>			
Property, plant and equipment .....	9	(11,174)	(7,032)
Acquisitions, net of cash acquired .....	17	(8,119)	(31)
<b>Investing activities</b>		<b>(19,293)</b>	<b>(7,063)</b>
<b>Financing activities</b>			
Bank loans .....		(8,451)	(897)
New borrowings .....		6,784	0
Payments of non-current liabilities .....		(1,863)	(31,499)
<b>Financing activities</b>		<b>(3,530)</b>	<b>(32,396)</b>
<b>Net increase (decrease) in cash</b> .....		<b>5,242</b>	<b>(20,027)</b>
<b>Effects of foreign exchange adjustments</b> .....		<b>(113)</b>	<b>25</b>
<b>Cash and cash equivalents at beginning of year</b> .....		<b>39,695</b>	<b>82,317</b>
<b>Cash and cash equivalents at the end of the period</b> .....		<b>44,824</b>	<b>62,315</b>
<b>Other information:</b>			
<b>Net cash provided by operating activities</b>			
Profit for the period .....		9,900	6,030
Items not affecting cash .....		15,587	12,391
<b>Working capital provided by operating activities</b>		<b>25,487</b>	<b>18,421</b>
Changes in current assets and liabilities .....		2,578	1,011
<b>Cash flow from operating activities</b>		<b>28,065</b>	<b>19,432</b>
Property, plant and equipment .....		(11,174)	(7,032)
<b>Free cash generated by operating activities</b>		<b>16,891</b>	<b>12,400</b>

# Notes to the Interim Consolidated Financial Statements

## 1. General information

Bakkavör Group hf. is a company incorporated and domiciled in Iceland. The condensed Interim Consolidated Financial Statements for the first three months of 2007 comprise Bakkavör Group hf. (the parent) and its subsidiaries (together referred as the Company).

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

## 2. Significant accounting policies

The condensed Interim Consolidated Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the EU.

The condensed Interim Consolidated Financial Statements have been prepared under the historical cost basis, except for revaluation of certain properties and financial instruments.

The accounting policies adopted are consistent with those followed in the preparation of the Company's Annual Financial Statements for the year ended 31 December 2006.

These condensed Interim Consolidated Financial Statements do not include all of the information required for annual Financial Statements, and should be read in conjunction with the Consolidated Financial Statements of the Company as at and for the year ended December 31, 2006.

The following are new and updated standards and interpretations that are effective for annual financial statements 2007:

- IAS 32, *Financial instruments, presentation*
- IFRS 7, *Financial instruments, disclosures*
- IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
- IFRIC 8, *Scope of IFRS 2*
- IFRIC 9, *Reassessment of Embedded Derivatives*
- IFRIC 10, *Interim Financial Reporting and Impairment*

The adoption of those new and updated standards and interpretations has not resulted in changes of accounting policies applied in recognition and measurement.

Adoption of IFRS 7 in annual financial statements 2007 will in relation to financial statements 2006 result in changes and addition to information disclosed in notes regarding financial instruments. IFRS 7 is not applicable for interim reports.

## 3. Subsidiaries

Subsidiaries at 31 March 2007.

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

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



# Notes to the Interim Consolidated Financial Statements

## 4. Quarterly statements

	Q1 - 2006	Q2 - 2006	Q3 - 2006	Q4 - 2006	Q1 - 2007
Net sales .....	258,606	298,483	332,939	329,161	349,354
Cost of sales .....	(190,281)	(219,154)	(244,430)	(239,047)	(265,587)
<b>Gross profit</b> .....	<b>68,325</b>	<b>79,329</b>	<b>88,509</b>	<b>90,114</b>	<b>83,767</b>
Other operating income .....	5	5	4	10	7
Operating expenses .....	(49,470)	(46,367)	(56,270)	(59,943)	(58,438)
Share of profit (loss) in associates .....	(402)	(178)	(208)	470	25
<b>Operating profit (EBIT)</b> .....	<b>18,458</b>	<b>32,789</b>	<b>32,035</b>	<b>30,651</b>	<b>25,361</b>
Net finance costs .....	(10,452)	(12,888)	(13,922)	(10,098)	(12,367)
<b>Profit before tax</b> .....	<b>8,006</b>	<b>19,901</b>	<b>18,113</b>	<b>20,553</b>	<b>12,994</b>
Income tax .....	(1,976)	(5,681)	(2,866)	(4,714)	(3,094)
<b>Profit from continuing operations</b> .....	<b>6,030</b>	<b>14,220</b>	<b>15,247</b>	<b>15,839</b>	<b>9,900</b>
Discontinuing operation, net of tax .....	0	0	0	16,910	0
<b>Profit for the period</b> .....	<b>6,030</b>	<b>14,220</b>	<b>15,247</b>	<b>32,749</b>	<b>9,900</b>
<b>EBITDA</b> .....	<b>27,307</b>	<b>40,720</b>	<b>40,411</b>	<b>39,324</b>	<b>35,077</b>
<b>EBITDA (including discontinuing operation)</b> .....	<b>27,307</b>	<b>40,720</b>	<b>40,411</b>	<b>60,623</b>	<b>35,077</b>
EBITDA ratio .....	10.6%	13.6%	12.1%	11.9%	10.0%
EBITDA ratio (including discontinuing operation).....	10.6%	13.6%	12.1%	18.4%	10.0%
Working capital provided by operating activities .....	18,421	33,177	31,202	59,964	25,487
Cash flow from operating activities .....	19,433	24,067	51,502	36,498	28,065
Free cash generated by operating activities .....	12,400	16,555	40,699	23,943	16,891

## 5. Business and geographical segments

The Company operates in seven countries with over 4,700 products in 17 categories. Certain parts of the business are subject to seasonal fluctuations in sales. However, the Company operates a diversified portfolio of products that minimises that effect. No individual element of seasonality is likely to be material to the result of the Company as a whole.

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

	1.1. - 31.3. 2007	1.1. - 31.3. 2006
United Kingdom .....	324,577	236,688
Continental Europe .....	24,777	21,918
	<b>349,354</b>	<b>258,606</b>

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

	1.1. - 31.3. 2007	1.1. - 31.3. 2006
"Hot eating" .....	148,943	125,644
"Cold eating" .....	127,642	86,862
Traded produce and Continental Europe .....	72,769	46,100
	<b>349,354</b>	<b>258,606</b>

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

	1.1. - 31.3. 2007	1.1. - 31.3. 2006
United Kingdom .....	25,114	18,639
Continental Europe .....	247	(181)
	<b>25,361</b>	<b>18,458</b>

# Notes to the Interim Consolidated Financial Statements

## 6. Net finance costs

	1.1. - 31.3. 2007	1.1. - 31.3. 2006
Interest income .....	523	647
Interest expenses and exchange rate adjustments .....	(12,890)	(11,099)
	<u>(12,367)</u>	<u>(10,452)</u>

## 7. Earnings per share

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

	1.1. - 31.3. 2007	1.1. - 31.3. 2006
Net profit for the 3 months ended 31 March attributable to shareholders .....	9,648	5,811
Total average number of shares outstanding during the period (in million) .....	2,157	1,615
Earnings per share (GBP pence) .....	0.45	0.36

## 8. 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 period .....	(69)	0	(69)
Amortization during the period .....	0	(242)	(242)
At 31 March 2007 .....	<u>707,937</u>	<u>5,680</u>	<u>713,617</u>
Carrying amount:			
At 31 March 2007 .....	<u>707,937</u>	<u>5,680</u>	<u>713,617</u>

## 9. Property, plant and equipment

	1.1. - 31.3. 2007
Additions, disposals and exchange difference in 2007 .....	11,166
Depreciated 2007, included in Cost of sales in the Interim Consolidated Income statement .....	(6,510)
Depreciated 2007, included in Operating expenses in the Interim Consolidated Income statement .....	(2,964)

## 10. Interest in joint ventures and associates

Joint ventures and associates at 31 March 2007.

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

# Notes to the Interim Consolidated Financial Statements

## 11. Inventories

	31.3. 2007	31.12. 2006
Raw material and packaging .....	26,986	30,076
Work in progress .....	1,074	979
Finished goods .....	3,755	4,712
	<u>31,815</u>	<u>35,767</u>

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

## 12. 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 the end of the period, the company's own shares amounted to 1,154,000 ISK.

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

Total share capital .....	14,932
Own shares .....	(8)
	<u>14,924</u>

Changes in share capital are as follows:

Share capital at 1 January 2007 .....	14,924
Changes during the period .....	0
Share capital at 31 March 2007 .....	<u>14,924</u>

## 13. Dividends

The Annual General Meeting of Bakkavör Group, held on 23 March 2007, resolved to pay a dividend of 50% of nominal share value to shareholders. This corresponds to ISK 0.50 per share. Dividends were paid on 24 April 2007.

## 14. Derivative financial instruments

The Company utilises currency derivatives to hedge significant future transactions and cash flows. At the balance sheet date, the total notional amount of outstanding forward exchange contracts to which the Company is committed amounts to GBP 29.4 million.

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

## 15. Mortgages and commitments

### Operating lease commitments

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

	31.3. 2007
Not later than 1 year .....	9,407
Later than 1 year and not later than 5 years .....	27,304
Later than 5 years .....	56,758
	<u>93,469</u>

### Capital commitments

Capital expenditure contracted for, but not provided for in these accounts, amounted to GBP 9.5 million.

### Purchase commitments

The Company has purchase commitments for the next 12 months to guarantee supply and price in the amount of GBP 6.6 million.

# Notes to the Interim Consolidated Financial Statements

## 16. Contingent liabilities

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

At 31 March the Company has granted its subsidiaries and associates guarantees amounting to GBP 16.4 million.

## 17. Acquisitions

The following table sets out the book values of the identifiable assets and liabilities acquired in 2006 and their fair value to the Company:

	Laurens Patisseries Ltd.	New Primebake Ltd.	Other acquisitions	Total
Tangible assets .....	25,835	4,695	5,272	35,802
Inventories .....	999	819	2,544	4,362
Debtors .....	10,795	2,720	3,331	16,846
Cash .....	0	162	0	162
Total assets .....	<u>37,629</u>	<u>8,396</u>	<u>11,147</u>	<u>57,172</u>
Bank loans .....	(8,099)	0	0	(8,099)
Bank overdrafts .....	(1,706)	0	(1,105)	(2,811)
Taxation .....	(1,468)	(1,062)	709	(1,821)
Other creditors .....	(9,076)	(5,233)	(14,762)	(29,071)
Deferred taxation .....	(2,070)	(288)	0	(2,358)
Total liabilities .....	<u>(22,419)</u>	<u>(6,583)</u>	<u>(15,158)</u>	<u>(44,160)</u>
Net assets .....	<u>15,210</u>	<u>1,813</u>	<u>(4,011)</u>	<u>13,012</u>
Joint venture reclassified .....	0	0	3,178	3,178
Goodwill .....	115,614	16,408	16,696	148,718
Other intangible assets .....	0	1,639	0	1,639
	<u>130,824</u>	<u>19,860</u>	<u>15,863</u>	<u>166,547</u>
Satisfied by:				
Shares issued .....	30,000	0	0	30,000
Direct costs relating to acquisition .....	824	600	613	2,037
Cash consideration .....	100,000	19,260	11,250	130,510
	<u>130,824</u>	<u>19,860</u>	<u>11,863</u>	<u>162,547</u>

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

Cash consideration .....	(100,824)	(19,860)	(11,863)	(132,547)
Cash at bank and in hand acquired .....	(1,706)	162	(1,105)	(2,649)
Deferred payments.....	0	0	(4,000)	(4,000)
	<u>(102,530)</u>	<u>(19,698)</u>	<u>(16,968)</u>	<u>(139,196)</u>

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

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

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

# Notes to the Interim Consolidated Financial Statements

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## 18. Pension

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

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

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

	<u>1.1. - 31.3. 2007</u>
UK defined benefit plan net charge .....	(700)
UK defined contribution plan net charge .....	(119)
Overseas net charge .....	<u>(57)</u>
	<u>(876)</u>

## 19. Events after the Balance Sheet date

At 26 April the Company announced finalizing a new GBP 700 million facility with a group of banks, refinancing its previous acquisition facilities on favourable terms.

## 20. Approval of the Interim Consolidated Financial Statements

The Interim Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 26 April 2007.