



---

Consolidated Financial Statements

---

**2009**

---

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

**Table of Contents**

Endorsement by the Board of Directors and CEO	2-3
Independent Auditor's Report	4
Consolidated Income Statement	5-6
Consolidated Statement of Comprehensive Income	7
Consolidated Statement of Financial Position	8
Consolidated Statement of Changes in Equity	9
Consolidated Statement of Cash Flows	10
Notes to the Consolidated Financial Statements	11-42

---

## Endorsement by the Board of Directors and CEO

---

The Consolidated Financial Statements for the year 2009 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.

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.

The Group had sales of GBP 1.7 billion in 2009 compared with GBP 1.6 billion in 2008 an increase of 2% year on year. Loss for the year, according to the Income Statement, amounted to GBP 11.8 million (2008 - GBP 154.2 million loss). The Group had total assets of GBP 1.5 billion (2008 - GBP 1.8 billion). Total equity amounted to GBP 107.6 million at the end of the year (2008 - GBP 122.7 million). The Board of Directors otherwise refers to the Consolidated Financial Statements regarding changes in the Group's equity.

At 31 March 2009 Bakkavör refinanced its banking facilities and secured funding through to 30 March 2012 across all of the operating subsidiaries. On 13 October 2009, the Group sold its investment in International Produce Limited (IPL) to Asda. The sale was undertaken after Asda exercised its option to acquire the business in line with the contractual agreement entered into when IPL was established in 2004.

In March 2010, Bakkavör Estates Limited, which holds the UK freehold properties of the Group, refinanced its facility through the Group's main UK banking facility in Bakkavör London Limited.

The Group has reached agreement with the lenders to the Icelandic holding company to secure a full refinancing of the existing GBP 316 million of indebtedness.

This agreement sees approximately GBP 144 million (46%) of the existing indebtedness being immediately converted into additional ordinary and preference share capital. The equity issuance significantly de-leverages the Group resulting in total equity, on a pro forma basis, rising to GBP 251 million at the year end 2009. The pro forma equity ratio will increase to 17% from 7.3%. Net finance costs, on a pro forma basis would be GBP 67.0 million in 2009, resulting in a profit enhancement of GBP 15.8 million.

In addition, the remaining debt (54%) will be classified as a Convertible debt instrument with the maturity extended to June 2014. Any amount of the Convertible debt not repaid on maturity will automatically convert into ordinary shares. This, in effect amounts to a deferred debt for equity swap.

Following the refinancing, the Group has net debt, excluding convertible instruments, of GBP 623.8 million. As a consequence, the pro forma Group debt leverage multiple would be around 4.6x at the end of 2009. As a consequence of the continued improvement in profitability and the cash generative nature of the Group, it is expected leverage will fall to below 4.0x by the end of 2010 and be below 3.0x by 2012.

Full details of the debt for equity swap are outlined in note 35 to the Consolidated Financial Statements "Events after the Balance sheet date"

## Endorsement by the Board of Directors and CEO, cont.

---

At the year end the number of shareholders were 2,919. At the beginning of the year there were 3,011 shareholders. At the year end one shareholder holds more than 10% of the shares, B.Food Invest ehf. 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 audited Consolidated Financial Statements for the year 2009 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 that no dividend will be paid in the year 2010.

Reykjavík, 7 April 2010

### Board of Directors and CEO

Lýdur Gudmundsson  
Chairman

Ágúst Gudmundsson  
CEO

Ásgeir Thoroddsen

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 financial position as at December 31, 2009, 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, 2009, 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, 7 April 2010

Deloitte hf.

Sigurdur H. Steindórsson

State Authorised Public Accountant

Birkir Leósson

State Authorised Public Accountant

## Consolidated Income Statement for the period 1 October to 31 December 2009

	Unaudited			Unaudited		
	Fourth quarter			Fourth quarter		
	1 October - 31 December			1 October - 31 December		
	2009			2008		
	Before restructuring, refinancing and other gains and losses	Restructuring, refinancing and other gains and losses	Total	Before restructuring, refinancing and other gains and losses	Restructuring, refinancing and other gains and losses	Total
Net sales .....	388.5		388.5	412.5		412.5
Cost of sales .....	(301.0)		(301.0)	(321.8)		(321.8)
<b>Gross profit</b> .....	87.5		87.5	90.7		90.7
Operating expenses .....	(65.2)		(65.2)	(85.9)		(85.9)
Restructuring costs .....		(0.2)	(0.2)		(37.0)	(37.0)
Share of profit (loss) in associates .....	0.1		0.1	(0.4)		(0.4)
	(65.1)	(0.2)	(65.3)	(86.3)	(37.0)	(123.3)
<b>Operating profit (loss)</b> .....	22.4	(0.2)	22.2	4.4	(37.0)	(32.6)
Net finance costs .....	(21.8)	(7.4)	(29.2)	(13.0)	(1.3)	(14.3)
Other losses .....		(2.6)	(2.6)		(53.8)	(53.8)
Loss on other assets .....		(12.4)	(12.4)		(0.5)	(0.5)
	(21.8)	(22.4)	(44.2)	(13.0)	(55.6)	(68.6)
<b>(Loss) profit before tax</b> .....	0.6	(22.6)	(22.0)	(8.6)	(92.6)	(101.2)
Income tax .....	5.2	0.8	6.0	3.0	(0.1)	2.9
<b>(Loss) profit for the period</b> .....	5.8	(21.8)	(16.0)	(5.6)	(92.7)	(98.3)
<b>Attributable to:</b>						
Shareholders of Bakkavör Group hf. ....			(15.9)			(97.1)
Minority interest .....			(0.1)			(1.2)
			(16.0)			(98.3)
Loss per share (GBP pence)			(0.7)			(4.5)

## Consolidated Income Statement for the year 2009

	Notes	Period 1 January - 31 December 2009			Period 1 January - 31 December 2008		
		Before restructuring, refinancing and other gains and losses	Restructuring, refinancing and other gains and losses	Total	Before restructuring, refinancing and other gains and losses	Restructuring, refinancing and other gains and losses	Total
Net sales .....	5	1,650.4		1,650.4	1,618.3		1,618.3
Cost of sales .....		(1,288.0)		(1,288.0)	(1,268.9)		(1,268.9)
<b>Gross profit .....</b>		362.4		362.4	349.4		349.4
Operating expenses .....		(272.8)		(272.8)	(285.0)		(285.0)
Restructuring costs .....	8		(5.2)	(5.2)		(41.7)	(41.7)
Share of profit (loss) in associates .....		1.0		1.0	(0.7)		(0.7)
		<u>(271.8)</u>	<u>(5.2)</u>	<u>(277.0)</u>	<u>(285.7)</u>	<u>(41.7)</u>	<u>(327.4)</u>
<b>Operating profit (loss) .....</b>		90.6	(5.2)	85.4	63.7	(41.7)	22.0
Net finance costs .....	9	(82.8)	(17.0)	(99.8)	(60.9)	(3.0)	(63.9)
Other gains and (losses) .....	10		3.1	3.1		(51.0)	(51.0)
Loss on other assets .....	11		(16.9)	(16.9)		(63.0)	(63.0)
		<u>(82.8)</u>	<u>(30.8)</u>	<u>(113.6)</u>	<u>(60.9)</u>	<u>(117.0)</u>	<u>(177.9)</u>
<b>(Loss) profit before tax .....</b>		7.8	(36.0)	(28.2)	2.8	(158.7)	(155.9)
Income tax .....	12	11.5	4.9	16.4	0.8	0.9	1.7
<b>(Loss) profit for the year .....</b>		<u>19.3</u>	<u>(31.1)</u>	<u>(11.8)</u>	<u>3.6</u>	<u>(157.8)</u>	<u>(154.2)</u>
<b>Attributable to:</b>							
Shareholders of Bakkavör Group hf. ....				(13.2)			(153.9)
Minority interest .....				1.4			(0.3)
				<u>(11.8)</u>			<u>(154.2)</u>
Loss per share (GBP pence)	13			(0.6)			(7.2)

## Consolidated Statement of Comprehensive Income for the year 2009

	Period 1 October to		Period 1 January to	
	31 Dec	31 Dec	31 Dec	31 Dec
	2009	2008	2009	2008
Loss for the period .....	<u>(16.0)</u>	<u>(98.3)</u>	<u>(11.8)</u>	<u>(154.2)</u>
<b>Other Comprehensive Income</b>				
Translation difference .....	(7.3)	17.5	4.9	16.0
Actuarial gain (loss) recognised on pension plan .....	10.8	(2.7)	(12.9)	(14.7)
Tax on items taken directly to equity .....	<u>(3.0)</u>	<u>0.7</u>	<u>3.6</u>	<u>4.1</u>
	<u>0.5</u>	<u>15.5</u>	<u>(4.4)</u>	<u>5.4</u>
<b>Total Comprehensive income .....</b>	<u><u>(15.5)</u></u>	<u><u>(82.8)</u></u>	<u><u>(16.2)</u></u>	<u><u>(148.8)</u></u>
<b>Attributable to:</b>				
Shareholders of Bakkavör Group hf. ....	(15.4)	(81.6)	(17.6)	(148.5)
Minority interest .....	<u>(0.1)</u>	<u>(1.2)</u>	<u>1.4</u>	<u>(0.3)</u>
	<u>(15.5)</u>	<u>(82.8)</u>	<u>(16.2)</u>	<u>(148.8)</u>



# Consolidated Statement of Financial Position at 31 December 2009

	Notes	31.12.2009	31.12.2008
<b>Non-current assets</b>			
Goodwill and other intangible assets .....	14	846.3	851.0
Property, plant and equipment .....	15	330.9	358.3
Investments in associates .....	16	12.3	12.9
Deferred income tax asset .....	23	4.1	0.1
		<u>1,193.6</u>	<u>1,222.3</u>
<b>Current assets</b>			
Inventories .....	18	50.5	57.5
Trade and other receivables .....	19	189.8	262.5
Assets classified as held for sale .....	20	7.9	2.8
Cash and cash equivalents .....	21	37.6	210.7
		<u>285.8</u>	<u>533.5</u>
		<u>1,479.4</u>	<u>1,755.8</u>
<b>Total assets</b>			
<b>Equity</b>			
Share capital .....	22	14.9	14.9
Capital reserve .....		72.6	72.6
Other reserves .....		25.3	19.6
Retained (loss) earnings .....		(8.0)	14.5
		<u>104.8</u>	<u>121.6</u>
<b>Shareholders' equity</b>			
Minority interest .....		2.8	1.1
		<u>107.6</u>	<u>122.7</u>
<b>Total equity</b>			
<b>Non-current liabilities</b>			
Deferred income tax liability .....	23	11.7	33.9
Borrowings .....	25	600.5	796.7
		<u>612.2</u>	<u>830.6</u>
<b>Current liabilities</b>			
Borrowings .....	25	377.0	364.8
Other current liabilities .....	27	382.6	437.7
		<u>759.6</u>	<u>802.5</u>
		<u>1,479.4</u>	<u>1,755.8</u>
<b>Total equity and liabilities</b>			
<b>Off Balance Sheet Items:</b>			
Mortgages and commitments .....	28		

## Consolidated Statement of Changes in Equity for the year 2009

	Shareholders' equity					Minority interest	Total equity
	Share capital	Capital reserve	Other reserves	Retained earnings	Total		
Equity 1 January 2008 .....	14.9	72.6	3.2	186.6	277.3	1.4	278.7
Translation reserves .....			16.0		16.0		16.0
Actuarial loss recognised on pension plan .....				(10.6)	(10.6)		(10.6)
Loss for the year .....				(153.9)	(153.9)	(0.3)	(154.2)
Comprehensive income for the year	0.0	0.0	16.0	(164.5)	(148.5)	(0.3)	(148.8)
Recognition of share-based payments .....			0.4		0.4		0.4
Dividends .....				(7.6)	(7.6)		(7.6)
Equity 31 December 2008 .....	14.9	72.6	19.6	14.5	121.6	1.1	122.7
				Retained earnings (loss)			
	Share capital	Capital reserve	Other reserves		Total	Minority interest	Total equity
Equity 1 January 2009 .....	14.9	72.6	19.6	14.5	121.6	1.1	122.7
Translation reserves .....			4.9		4.9		4.9
Actuarial loss recognised on pension plan .....				(9.3)	(9.3)		(9.3)
(Loss) profit for the year .....				(13.2)	(13.2)	1.4	(11.8)
Comprehensive income for the year	0.0	0.0	4.9	(22.5)	(17.6)	1.4	(16.2)
Recognition of share-based payments .....			0.8		0.8		0.8
Change in minority interest .....						0.3	0.3
Equity 31 December 2009 .....	14.9	72.6	25.3	(8.0)	104.8	2.8	107.6

## Consolidated Statement of Cash Flows for the year 2009

	Notes	Unaudited		Period 1 January to	
		Period 1 October to 31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
<b>Cash flow from operating activities</b>					
Operating profit (loss) .....		22.2	(32.6)	85.4	22.0
Depreciation and amortisation .....	14, 15	11.5	28.8	44.5	62.1
Other items .....		0.3	0.4	0.5	(0.7)
Changes in current assets and liabilities .....		16.1	(32.7)	33.9	(51.1)
<b>Cash generated from (to) operations pre-exceptional creditors .....</b>		50.1	(36.1)	164.3	32.3
Changes in exceptional creditors .....		(6.2)	13.4	(12.3)	13.4
<b>Cash generated from (to) operations</b>		43.9	(22.7)	152.0	45.7
Payments of interest income and interest expense .....		(8.7)	(10.8)	(56.2)	(38.8)
(Payments) receipt of tax .....		(1.1)	4.3	(3.4)	8.2
<b>Cash flow from (to) operating activities</b>		34.1	(29.2)	92.4	15.1
<b>Investing activities</b>					
Property, plant and equipment .....		(6.4)	(9.4)	(24.1)	(49.1)
Acquisitions, net of cash acquired .....		(3.9)	0.4	(8.4)	(57.1)
Disposals, net of cash disposed of .....		(2.1)	0.0	(2.1)	0.0
Shareholdings .....		0.0	(0.3)	0.0	(8.9)
Financial assets .....		0.0	0.0	0.0	(53.9)
<b>Investing activities</b>		(12.4)	(9.3)	(34.6)	(169.0)
<b>Financing activities</b>					
Dividends .....		(0.1)	0.0	(0.5)	(7.6)
Bank loans .....		(20.2)	(23.6)	(229.8)	77.4
New borrowings .....		0.0	66.2	0.0	226.3
<b>Financing activities</b>		(20.3)	42.6	(230.3)	296.1
<b>Net increase (decrease) in cash .....</b>		1.4	4.1	(172.5)	142.2
<b>Effects of foreign exchange adjustments .....</b>		(0.2)	(2.5)	(0.6)	(1.9)
<b>Cash and cash equivalents at beginning of period .....</b>		36.4	209.1	210.7	70.4
<b>Cash and cash equivalents at the end of the period .....</b>		37.6	210.7	37.6	210.7
<b>Other information:</b>					
Free cash (deficit) generated by operating activities .....		27.7	(38.6)	68.3	(34.0)

# 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 2009 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

The Consolidated Financial Statements are presented in accordance with the new and revised standards (IFRS/IAS) and new interpretations (IFRIC), applicable to financial years in the year 2009. These standards and interpretations are:

	Effective for accounting periods beginning:
-IFRS 2 (revised) - Share based payment	On or after 1 January 2009
-IFRS 7 (revised) - Financial Instruments: Disclosures	On or after 1 January 2009
-IFRS 8 - Operating Segments	On or after 1 January 2009
-IAS 1 (revised) - Presentation of Financial Statements	On or after 1 January 2009
-IAS 23 (revised) - Borrowing Costs	On or after 1 January 2009
-IAS 32 (revised) - Financial Instruments Presentation	On or after 1 January 2009
-IFRIC 13 - Customer loyalty programmes	On or after 1 July 2008
-IFRIC 15 - Agreements of Constructions of Real Estate	On or after 1 January 2009
-IFRIC 16 - Hedges of Net Investments in Foreign Operation	On or after 1 January 2009

Minor changes were made to various standards in annual improvements of IASB (most of the changes are effective for annual periods beginning on or after 1 July 2009 or later).

The adoption of the new and revised standard and interpretations has not led to material changes in the accounting policies.

At the date of these financial statements, the following Standards and Interpretations were in issue but not effective (and in some cases have not yet been adopted by the EU):

	Effective for accounting periods beginning:
-IFRS 1 (revised) - First-time adoption of International Financial Reporting Standards	On or after 1 July 2009
-IFRS 2 (revised) - Share-based Payment	On or after 1 January 2010
-IFRS 3 (revised) - Business combinations	On or after 1 July 2009
-IFRS 9 - Financial Instruments: Classification and Measurement	On or after 1 January 2013
-IAS 24 - Related Party Disclosures	On or after 1 January 2011
-IAS 27 (revised) - Consolidated and separate Financial Statements	On or after 1 July 2009
-IAS 32 (revised) - Financial Instruments: Presentation	On or after 1 February 2009
-IAS 39 (revised) - Financial Instruments: Recognition and measurement	On or after 1 July 2009
-IFRIC 14 (revised) - IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	On or after 1 July 2009
-IFRIC 17 - Distributions of Non-cash Assets to Owners	On or after 1 July 2009
-IFRIC 18 - Transfers of Assets from Customers	On or after 1 July 2009
-IFRIC 19 - Extinguishing Financial Liabilities with equity instruments	On or after 1 July 2010

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.

# Notes to the Consolidated Financial Statements

---

## **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.

# Notes to the Consolidated Financial Statements

---

## Investments in associates

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the income statement. Where a company entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

## Non-current assets held for sale

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

## Goodwill

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

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

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

## Foreign currencies

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

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

# Notes to the Consolidated Financial Statements

---

## 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 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 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 end of each reporting period. 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.

# Notes to the Consolidated Financial Statements

---

## 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.



# Notes to the Consolidated Financial Statements

---

## Derivative financial instruments

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

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

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Derivatives 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.

# Notes to the Consolidated Financial Statements

---

## Taxation

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements

---

## Other intangible assets

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

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

Other intangible assets include licensing agreements and customer contracts.

## Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

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

# Notes to the Consolidated Financial Statements

---

## Inventories

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

## Cash and cash equivalents

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

## Provision

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

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

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

## Pension

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

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

Contributions to other Group pension plans are charged to the profit and loss account, in the period vested. Additional details are given in note 31.

## Notes to the Consolidated Financial Statements

### 3. Subsidiaries

Subsidiaries at 31 December 2009.

	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
BV Acquisitions 2008 ehf. ....	Iceland	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 management
Bakkavor Finance Ltd. ....	United Kingdom	100%	Management company
Bakkavor London Ltd. ....	United Kingdom	100%	Management company
BV London ehf. ....	Iceland	100%	Holding 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
Bakkavor Central Finance Ltd. ....	United Kingdom	100%	Management company
Notsallow 256 Ltd. ....	United Kingdom	100%	Preparation and marketing of fresh prepared foods
Butterdean Products Ltd. ....	United Kingdom	100%	Holding company
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
Cucina Sano 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
Bakkavor Traiteur (Chevilly) SA ....	France	100%	Preparation and marketing of fresh prepared foods
Cinquième Saison SAS Group ....	France	100%	Preparation and marketing of fresh prepared foods
CS France SAS ....	France	100%	Preparation and marketing of fresh prepared foods
Crudi SAS ....	France	100%	Preparation and marketing of fresh prepared foods
Sogesol SA ....	Spain	100%	Preparation and marketing of fresh prepared foods
SBLP ....	France	100%	Preparation and marketing of fresh prepared foods
Financière 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 Properties Ltd. ....	United Kingdom	100%	Property management
BV Negecos ....	Netherlands	100%	Holding company
Bakkavor European Marketing BV ....	Netherlands	100%	Holding company
Vaco BV ....	Belgium	100%	Preparation and marketing of fresh prepared foods
Bakkavor SA ....	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 Foods Co., Ltd. ....	China	80%	Produce and manufactures salad products
Guangzhou Riweijian Nutriment Co., Ltd. ....	China	100%	Produce and manufactures salad products

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

## Notes to the Consolidated Financial Statements

### 4. Quarterly statements

	Q4 - 2008	Q1 - 2009	Q2 - 2009	Q3 - 2009	Q4 - 2009
Net sales .....	412.5	409.8	426.6	425.5	388.5
Cost of sales .....	(321.8)	(331.3)	(334.7)	(321.0)	(301.0)
<b>Gross profit</b> .....	<b>90.7</b>	<b>78.5</b>	<b>91.9</b>	<b>104.5</b>	<b>87.5</b>
Operating expenses .....	(85.9)	(71.0)	(65.7)	(70.9)	(65.2)
Restructuring costs .....	(37.0)	0.0	(4.6)	(0.4)	(0.2)
Share of profit (loss) in associates .....	(0.4)	0.2	0.2	0.5	0.1
<b>Operating profit (loss)(EBIT)</b> .....	<b>(32.6)</b>	<b>7.7</b>	<b>21.8</b>	<b>33.7</b>	<b>22.2</b>
Net finance costs .....	(14.3)	(20.2)	(24.1)	(26.3)	(29.2)
Other gains and losses .....	(53.8)	(6.9)	31.3	(18.7)	(2.6)
Loss on other assets .....	(0.5)	0.0	(3.7)	(0.8)	(12.4)
<b>(Loss) profit before tax</b> .....	<b>(101.2)</b>	<b>(19.4)</b>	<b>25.3</b>	<b>(12.1)</b>	<b>(22.0)</b>
Income tax .....	2.9	11.3	1.1	(2.0)	6.0
<b>(Loss) profit for the period</b> .....	<b>(98.3)</b>	<b>(8.1)</b>	<b>26.4</b>	<b>(14.1)</b>	<b>(16.0)</b>
EBITDA pre-restructuring costs .....	15.7	18.7	37.3	45.2	33.9
EBITDA post-restructuring costs .....	(3.8)	18.7	32.7	44.8	33.7
EBITDA ratio pre-restructuring costs.....	3.8%	4.6%	8.7%	10.6%	8.7%
EBITDA ratio post-restructuring costs.....	(0.9%)	4.6%	7.7%	10.5%	8.7%
Cash flow (to) from operating activities .....	(29.2)	(20.7)	32.9	46.1	34.1
Free cash (deficit) generated by operating activities .....	(38.6)	(28.0)	28.0	40.6	27.7

The quarterly statements have not been audited by the auditors.

### 5. Segment information

The Group operates in ten countries with over 6,000 products in 18 categories. Sales represents amounts receivable for goods provided in the normal course of the business. Certain parts of the business are subject to seasonal fluctuations in sales. However, the Group 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 Group as a whole.

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, following the adoption of IFRS 8, the identification of the Group's reportable segments has changed.

In prior years, segment information reported externally was analysed on the basis of the types of the Group's sale by the categories "Hot eating", "Cold eating" and Traded Produce and Rest of the World. However, information reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of performance is focussed on four operating divisions: UK Prepared Foods, UK Produce, Continental Europe and Rest of the World.

Principal activities are as follows:

UK Prepared Foods: The preparation and marketing of fresh prepared foods for distribution in the UK.

UK Produce: The marketing and distribution of fresh produce in the UK.

Continental Europe: The preparation and marketing of fresh prepared foods and the marketing and distribution of fresh produce in Europe.

Rest of the World: The preparation and marketing of fresh prepared foods and the marketing and distribution of fresh produce in the rest of the world.

## Notes to the Consolidated Financial Statements

The following table provides an analysis of the Group's segment information for the period 1.1.2009 - 31.12.2009:

	UK Prepared	UK Produce	Continental Europe	Rest of world	Total
Net sales .....	1,231.7	155.6	211.2	51.9	1,650.4
Operating profit pre-restructuring costs .....	79.4	5.1	3.1	2.0	89.6
Operating profit (loss) post-restructuring costs .....	78.6	5.0	(1.2)	2.0	84.4
Share of profit in associates .....					1.0
<b>Operating profit</b> .....					85.4
Net finance costs .....					(99.8)
Other gains .....					3.1
Loss on other assets .....					(16.9)
<b>Loss before tax</b> .....					(28.2)
Income tax .....					16.4
<b>Loss for the year</b> .....					(11.8)

### Other information:

Capital additions .....	17.7	0.0	5.3	2.6	25.6
Depreciation and amortisation .....	33.3	0.8	7.8	2.6	44.5

The following table provides an analysis of the Group's segment information for the period 1.1.2008 - 31.12.2008:

	UK Prepared	UK Produce	Continental Europe	Rest of world	Total
Net sales .....	1,181.4	207.1	184.1	45.7	1,618.3
Operating profit (loss) pre-restructuring costs .....	61.2	2.4	1.2	(0.4)	64.4
Operating profit (loss) post-restructuring costs .....	23.3	(0.1)	(0.0)	(0.5)	22.7
Share of loss in associates .....					(0.7)
<b>Operating profit</b> .....					22.0
Net finance costs .....					(63.9)
Other losses .....					(51.0)
Loss on other assets .....					(63.0)
<b>Loss before tax</b> .....					(155.9)
Income tax .....					1.7
<b>Loss for the year</b> .....					(154.2)

### Other information:

Capital additions .....	40.2	0.7	5.2	4.1	50.2
Depreciation, impairment and amortisation .....	52.5	1.6	6.5	1.5	62.1

The following table provides an analysis of the Group's assets by operating segment:

	31.12. 2009	31.12. 2008
UK Prepared .....	1,181.0	1,238.8
UK Produce .....	14.3	50.4
Continental Europe .....	166.5	170.9
Rest of the World .....	73.2	65.5
Unallocated corporate assets .....	44.4	230.2
	1,479.4	1,755.8

## Notes to the Consolidated Financial Statements

The following table provides an analysis of the Group's liabilities by operating segment:

	31.12. 2009	31.12. 2008
UK Prepared .....	204.7	245.2
UK Produce .....	18.4	47.6
Continental Europe .....	59.4	68.7
Rest of the World .....	8.6	19.8
Unallocated corporate liabilities .....	1,080.7	1,251.8
	<u>1,371.8</u>	<u>1,633.1</u>

### 6. Salaries

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

	2009	2008
Salaries .....	344.5	343.5
Related expenses .....	47.1	43.8
	<u>391.6</u>	<u>387.3</u>

Average number of employees .....	18,938	19,930
-----------------------------------	--------	--------

	Salary and board fee GBP'000	Benefits GBP'000	Pension GBP'000	Number of Shares*
Lýður Guðmundsson, Chairman .....	18		1	** 855,166,183
Ágúst Guðmundsson, CEO .....	518	22	1	** 855,166,183
Ásgeir Thoroddsen, Board member .....	18		1	1,418,164
Hildur Árnadóttir, Board member .....	65		7	3,500,000
Katrín Pétursdóttir, Board member .....	18		1	

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

\* Including holdings of their spouses, dependent children, and companies owned by them, if any.

\*\* Ágúst Guðmundsson and Lýður Guðmundsson in total hold control of 855,166,183 shares through B.Food Invest ehf. and related parties.

### 7. Fees to Auditors

	2009	2008
Audit of financial statements .....	0.6	0.5
Review of interim financial statements .....	0.0	0.2
Other services .....	0.0	0.9
	<u>0.6</u>	<u>1.6</u>

### 8. Restructuring costs

	2009	2008
Redundancy and other restructuring costs .....	5.2	19.2
Onerous property costs .....	0.0	5.1
Impairment of assets .....	0.0	17.4
	<u>5.2</u>	<u>41.7</u>

The restructuring costs are the cost of restructuring under-performing manufacturing sites and improving 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.



## Notes to the Consolidated Financial Statements

### 9. Net Finance costs

	2009	2008
Interest income .....	1.2	2.6
Amortisation of refinancing costs .....	(17.0)	(3.0)
Interest expenses - Bakkavor Group hf. ....	(25.4)	(20.3)
Interest expenses - Rest of the Group .....	(58.6)	(43.2)
	<u>(99.8)</u>	<u>(63.9)</u>

### 10. Other gains and losses

	2009	2008
Decrease in derivative financial instruments .....	(3.7)	(27.9)
Exchange rate adjustments .....	6.8	(23.1)
	<u>3.1</u>	<u>(51.0)</u>

The Group has experienced non cash losses from mark-to-market movements on foreign currency contracts of GBP (5.5) million and non cash gains from mark-to-market movements on interest rate swaps of GBP 1.8 million.

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

### 11. Loss on other assets

	2009	2008
Impairment of assets .....	(15.9)	0.0
Loss on sale of subsidiary undertaking .....	(1.8)	0.0
Gain recognised on disposal of interests in associates .....	0.6	0.0
Gain (loss) on other financial assets .....	0.2	(63.0)
	<u>(16.9)</u>	<u>(63.0)</u>

The Group has impaired some of its stake in Fram Foods hf. and related receivables. In December the Group impaired guarantees on loans relating to Fram foods and other related parties of the amount GBP 10.2 million. The Group has disposed of its 30% share in Interfruit (pty) Ltd. and its 45% share in Tropical Fresh Alimentos SA and its 76% investment in International Produce Ltd. (see note 17).

### 12. Income tax

	2009	2008
Current tax .....	(3.5)	(3.0)
Deferred tax (note 23) .....	(12.9)	1.3
	<u>(16.4)</u>	<u>(1.7)</u>

Reconciliation of effective tax rate:

	2009		2008	
Loss before tax .....	(28.2)		(155.9)	
Tax calculated at domestic tax rate .....	(4.2)	15.0%	(23.4)	15.0%
Effect of different tax rates of other jurisdictions .....	(3.4)	12.1%	(9.7)	6.2%
Tax exempt revenues .....	0.0	0.0%	(2.5)	1.6%
Permanent differences for tax purposes .....	(1.1)	3.9%	7.5	(4.8%)
Tax asset not recognised .....	0.3	(1.1%)	7.3	(4.7%)
Tax incentives not recognised in the income statement .....	0.0	0.0%	0.0	0.0%
Adjustments in respect of prior years .....	(8.0)	28.4%	(3.6)	2.3%
Abolition of industrial buildings allowances .....	0.0	0.0%	22.3	(14.3%)
Other changes .....	0.0	0.0%	0.4	(0.2%)
	<u>(16.4)</u>	<u>58.2%</u>	<u>(1.7)</u>	<u>1.1%</u>

## Notes to the Consolidated Financial Statements

### 13. Earnings (loss) per share

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

	2009	2008
Loss for the year attributable to shareholders of Bakkavör Group hf. ....	(13.2)	(153.9)
Total average number of shares outstanding during the period (in million) .....	2,148.1	2,148.1
Loss per share (GBP pence) .....	(0.6)	(7.2)
Earnings per share before restructuring, refinancing and other gains and losses (GBP pence) .....	0.8	0.2

### 14. Goodwill and other intangible assets

	Goodwill	Customer contracts	Total
Book value at 1 January 2008 .....	771.1	4.8	775.9
Additions and assessment changes in fair value during the year .....	75.5	0.4	75.9
Amortisation during the year .....	0.0	(0.8)	(0.8)
Book value at 1 January 2009 .....	846.6	4.4	851.0
Assessment changes in fair value and exchange rate difference during the period .....	(2.2)	(0.6)	(2.8)
Business disposals .....	0	(1.2)	(1.2)
Amortisation during the year .....	0.0	(0.7)	(0.7)
At 31 December 2009 .....	844.4	1.9	846.3
Carrying amount:			
At 31 December 2009 .....	844.4	1.9	846.3

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. 2009	31.12. 2008
UK prepared (a single CGU) .....	737.9	746.5
Europe (a single CGU) .....	60.5	61.4
Rest of world (a single CGU) .....	46.0	38.7
	844.4	846.6

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 11.5 per cent has been used in discounting the projected cash flows.

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

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

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

Customer contracts .....	4 - 10 years
--------------------------	--------------

## Notes to the Consolidated Financial Statements

### 15. Property, plant and equipment

	Real estate	Equipment	Total
Cost at 1 January 2008 .....	94.0	352.3	446.3
Accumulated depreciation at 1 January 2008 .....	(15.4)	(93.2)	(108.6)
Book value at 1 January 2008 .....	78.6	259.1	337.7
Acquisitions .....	1.4	15.0	16.4
Additions in 2008 .....	10.6	39.6	50.2
Disposals in 2008 .....	0.0	(0.3)	(0.3)
Transfer to current assets (available for sale) .....	(2.8)	0.0	(2.8)
Depreciated 2008 .....	(5.5)	(38.4)	(43.9)
Impairment of assets .....	(6.8)	(10.6)	(17.4)
Exchange differences .....	7.7	10.7	18.4
Cost at 1 January 2009 .....	104.1	406.7	510.8
Accumulated depreciation at 1 January 2009 .....	(20.9)	(131.6)	(152.5)
Book value at 1 January 2009 .....	83.2	275.1	358.3
Reclassification .....	2.5	(2.5)	0.0
Additions in 2009 .....	2.9	22.7	25.6
Business disposals cost in 2009 .....	0.0	(1.9)	(1.9)
Business disposals accumulated depreciation in 2009 .....	0.0	1.7	1.7
Disposals in 2009 .....	0.0	(0.7)	(0.7)
Transfer to current assets (available for sale) .....	(5.1)	0.0	(5.1)
Depreciated 2009 .....	(6.2)	(37.6)	(43.8)
Exchange differences .....	(0.2)	(3.0)	(3.2)
Book value at 31 December 2009 .....	77.1	253.8	330.9

Insurance value of property, plant and equipment at year end amounts to GBP 1,014 million.

Freehold land and building with a carrying value of GBP 57.1 million have been pledged to secure certain borrowings of the Group. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

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

	2009	2008
Depreciation included in Cost of sales in the Consolidated Income Statement .....	31.5	32.5
Depreciation included in Operating expenses in the Consolidated Income Statement .....	12.3	11.4
Impairment included in Restructuring costs in the Consolidated Income Statement .....	0.0	17.4
	43.8	61.3

### 16. Interest in associates

Associates at 31 December 2009.

	Place of registration and operation	Interest	Principal activity	2009	2008
Bakkavor QV Ltd. ....	United Kingdom	55.0%	Marketing of fresh produce	0.5	0.5
Tropical Fresh Alimentos SA .....	Brazil	45.0%	Prep. and mark. of fresh prep. food	-	0.8
Fram Foods hf. ....	Iceland	30.6%	Manuf. consumer pack. seafood	0.0	1.9
Interfruit (pty) Ltd. ....	South-Africa	30.0%	Prep. and mark. of fresh prep. food	-	0.5
Gastro Primo Ltd. ....	Hong Kong	48.0%	Food and beverage supplier	2.5	2.0
La Rose Noire Ltd. ....	Hong Kong	45.0%	Prepar. and mark. of pastry prod.	9.3	7.2
				12.3	12.9

## Notes to the Consolidated Financial Statements

### 17. Disposals

In May 2009 the Group disposed of its 30% share in Interfruit (pty) Ltd and its 45% share in Tropical Fresh Alimentos SA for a cash consideration of GBP 2.4 million resulting in a profit on disposal of GBP 0.6 million.

On 13th October 2009 the Group sold its investment in International Produce Limited for a cash consideration of GBP 0.9 million resulting in a loss on disposal of GBP 1.8 million, net of GBP 0.1 million disposal costs.

The net assets of International Produce Limited at the date of disposal were as follows:

Tangible assets .....	0.4
Deferred tax asset .....	0.1
Inventories .....	5.2
Debtors .....	17.4
Cash .....	4.8
Total assets .....	<u>27.9</u>
Taxation .....	(0.2)
Other creditors .....	<u>(25.7)</u>
Total liabilities .....	<u>(25.9)</u>
Minority interest .....	<u>(0.6)</u>
Attributable intangible assets .....	<u>1.2</u>
Net assets .....	<u>2.6</u>
Disposal costs .....	0.1
Loss on disposal .....	<u>(1.8)</u>
Total consideration .....	<u><u>0.9</u></u>

### 18. Inventories

	31.12. 2009	31.12. 2008
Raw material and packaging .....	40.1	46.0
Work in progress .....	2.0	2.7
Finished goods .....	8.4	8.8
	<u>50.5</u>	<u>57.5</u>

Insurance value of inventories at the end of the period amounts to GBP 46.5 million.

# Notes to the Consolidated Financial Statements

## 19. Other financial assets

### Trade and other receivables:

	31.12. 2009	31.12. 2008
Nominal value of trade receivables .....	165.0	199.6
Allowance for doubtful accounts .....	(3.1)	(2.5)
Pension asset (note 31) .....	0.0	0.4
Derivative financial instruments .....	0.4	5.7
Other receivables .....	27.5	59.3
	<u>189.8</u>	<u>262.5</u>

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. 2009	31.12. 2008
Not past due .....	140.4	150.1
Past due by 1-30 days .....	16.5	31.0
Past due by 31-60 days .....	2.5	9.0
Past due by 61-90 days .....	0.9	4.9
Past due by more than 90 days .....	4.7	4.6
	<u>165.0</u>	<u>199.6</u>

### Movement in the allowance for doubtful accounts:

	31.12. 2009	31.12. 2008
Balance at beginning of the year .....	(2.5)	(3.3)
Impairment losses recognised on receivables .....	(1.7)	(1.1)
Amounts written off as uncollectible .....	0.1	0.4
Amounts recovered during the year .....	0.6	1.3
Impairment losses reversed .....	0.4	0.2
Balance at end of the year .....	<u>(3.1)</u>	<u>(2.5)</u>

## 20 Assets classified as held for sale

	31.12. 2009	31.12. 2008
Assets held for sale .....	<u>7.9</u>	<u>2.8</u>

In 2009 the Group closed one factory in the UK that were surplus to requirements in additions to the two factories that were closed in 2008. A search is underway for buyers for these properties. No impairment was recognised on the reclassification of the properties as held for sale.

## 21 Cash and cash equivalents

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

## Notes to the Consolidated Financial Statements

### 22. 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 Group'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. 2009	31.12. 2008
Share capital - issued and fully paid .....	15.0	15.0
Own shares .....	(0.1)	(0.1)
	<u>14.9</u>	<u>14.9</u>

Changes in share capital are as follows:

Share capital at 1 January and at the end of the year .....	<u>14.9</u>	<u>14.9</u>
---	-------------	-------------

As at 31 December 2009, executives and senior employees held options over 34,635,241 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 employee share option plan are contained in note 32 to the financial statements.

### 23. Deferred tax asset and liability

	Deferred tax asset	Deferred tax liability	Total
At 1 January 2008 .....	1.9	(39.2)	(37.3)
Computed income tax for the year 2008 .....	(1.8)	0.5	(1.3)
Deferred tax movement associated with pension asset movement .....	0.0	4.8	4.8
At 1 January 2009 .....	0.1	(33.9)	(33.8)
Deferred tax movement arising on disposal of subsidiary .....	0.0	0.3	0.3
Computed income tax for the year 2009 .....	4.0	8.9	12.9
Deferred tax movement associated with pension liability movement .....	0.0	3.6	3.6
Deferred tax movement on Goodwill .....	0.0	8.8	8.8
Deferred tax on foreign currency movements .....	0.0	0.6	0.6
Deferred tax asset (liability) at 31 December 2009 .....	<u>4.1</u>	<u>(11.7)</u>	<u>(7.6)</u>

### 24. Dividends

The Annual General Meeting of Bakkavör Group, held on 20 May 2009, resolved to pay no dividend in the year 2009.

## Notes to the Consolidated Financial Statements

### 25. Borrowings

	31.12. 2009	31.12. 2008
Borrowings in GBP .....	573.4	1,019.4
Borrowings in ISK .....	265.7	0.0
Borrowings in USD .....	50.0	54.7
Borrowings in EUR .....	80.8	80.9
Borrowings in NOK .....	5.9	5.1
Borrowings in other currencies .....	1.7	1.4
Less: borrowings due in less than year .....	(377.0)	(364.8)
	<u>600.5</u>	<u>796.7</u>

The borrowings are repayable as follows:

2009 .....	-	364.8
2010 .....	377.0	119.5
2011 .....	3.1	9.1
2012 .....	595.4	622.0
2013 .....	0.6	45.6
2014 .....	0.5	-
Later .....	0.9	0.5
	<u>977.5</u>	<u>1,161.5</u>

Bonds previously accounted for in GBP are now denominated in ISK due to the maturity of a swap contract in May and in December.

In borrowings due in less than one year there are GBP 310.2 million that have been rescheduled since the year end. The borrowings will mature in 2014.

Certain borrowings are secured by fixed and floating charges over the assets of the Group.

The Group has a GBP 646.3 million multi currency credit revolving facility (RCF). At 31 December there were GBP 500 million of drawn borrowings against the RCF. The Group has available a USD 26 million and USD 12.75 million facility which are fully drawn. In addition, the Group has available a GBP 54 million multi currency term loan facility which is fully drawn.

For further details of the Group's financing arrangements see note 35.

#### Analysis of net debt:

	Before interests accruals and Capitalised bank fees	Interest accruals and capitalised bank fees	Total net debt
Cash and cash equivalents .....	37.6	0.0	37.6
Borrowings (Rest of the Group) .....	(655.2)	(6.2)	(661.4)
Net debt (operational) .....	(617.6)	(6.2)	(623.8)
Borrowings (Bakkavör Group HF) .....	(316.1)	0.0	(316.1)
Net debt .....	<u>(933.7)</u>	<u>(6.2)</u>	<u>(939.9)</u>

# Notes to the Consolidated Financial Statements

## 26. 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 52.5 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 451.4 million.

## 27. Other current liabilities

	31.12. 2009	31.12. 2008
Accounts payables .....	161.9	197.1
Current tax payables .....	18.7	21.1
Provisions .....	18.9	17.1
Pension deficit .....	13.2	0.0
Derivative financial instruments .....	33.7	35.3
Other current liabilities .....	136.2	167.1
	<u>382.6</u>	<u>437.7</u>

Current liabilities are non interest bearing.

## 28. Mortgages and commitments

### Operating lease commitments

The Group leases various offices and operational facilities under non-cancellable operating lease arrangements. The leases have various terms, escalation clauses and renewal rights. The Group also leases plant and machinery under non-cancellable operating lease agreements. The future minimum lease payments under non cancellable operating leases are as follows:

	31.12. 2009	31.12. 2008
Not later than 1 year .....	12.3	13.1
Later than 1 year and not later than 5 years .....	31.7	26.3
Later than 5 years .....	62.1	66.5
	<u>106.1</u>	<u>105.9</u>

### Capital commitments

Capital expenditure contracted for, but not provided for in these accounts, amounted to GBP 0.2 million.

### Purchase commitments

The Group has purchase commitments for the next 12 months to guarantee supply and price in the amount of GBP 38.3 million.

## 29. 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 108.0 million.



# Notes to the Consolidated Financial Statements

## 30. Financial risk management

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 25, cash and cash equivalents in note 21 and equity attributable to equity holders, comprising issued capital disclosed in note 22, 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. 2009	31.12. 2008
<b>Financial assets</b>		
Derivative financial instruments at fair value through profit and loss .....	0.4	5.7
Trade receivables .....	161.9	197.1
Other debtors .....	27.5	59.7
Cash and cash equivalents .....	37.6	210.7
	<u>227.4</u>	<u>473.2</u>
<b>Financial liabilities</b>		
Derivative financial instruments at fair value through profit and loss .....	33.7	35.3
Trade payables .....	161.9	197.1
Other creditors .....	187.0	205.3
Finance leases .....	9.6	14.0
Borrowings excluding finance leases .....	967.9	1,147.5
	<u>1,360.1</u>	<u>1,599.2</u>

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.

# Notes to the Consolidated Financial Statements

## 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, effectively managing and using derivative financial instruments. Use of financial instruments is governed by Group policies which are approved by the board of directors. The treasury 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 63% of the Group's borrowings (excluding the ISK bonds) were covered by interest rate swaps and collars (2008: 49%). 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	
	2009	2008	2009	2008
Effects of 100 basis points increase in interest rate .....	(4.1)	(2.4)	(4.1)	(2.4)
Effects of 100 basis points decrease in interest rate .....	4.1	4.8	4.1	4.8

A positive number indicates a gain and a negative number indicates a loss.

The Group's sensitivity to interest rates has increased during the current period mainly due to increased borrowings that are not covered by interest 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.

## Notes to the Consolidated Financial Statements

### 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 or fixed contracts	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2009	2008	2009	2008	2009	2008
	%	%				
Collars .....	4.37 - 5.75	4.37 - 5.75	100.0	100.0	(6.0)	(5.0)
Cancelable swaps .....	4.90 - 5.17	4.90 - 5.17	300.0	300.0	(22.2)	(24.1)
Interest rate swap .....	5.41	5.41	51.4	50.3	(5.3)	(6.2)
			<u>451.4</u>	<u>450.3</u>	<u>(33.5)</u>	<u>(35.3)</u>

An interest rate collar works like an interest rate swap but the contract has an interest rate ceiling in place and also an interest rate floor. A premium is paid for this type of contract but it protects the Group by capping the maximum interest rate paid at the collar's ceiling but sacrifices potential profitability of interest rate drops.

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 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	
	2009	2008
EUR .....	(86.2)	(95.3)
ZAR .....	2.9	0.2
USD .....	(82.6)	(60.7)
RMB.....	(0.6)	0.0
ISK .....	(263.6)	(0.3)
NOK .....	(5.9)	(5.1)
	<u>(436.0)</u>	<u>(161.2)</u>

# Notes to the Consolidated Financial Statements

## Foreign currency sensitivity

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

	10% Strengthening		10% Weakening	
	2009	2008	2009	2008
EUR .....	7.8	10.6	(9.6)	(8.7)
ZAR .....	(0.3)	0.0	0.3	0.0
USD .....	7.5	6.7	(9.2)	(5.5)
RMB .....	0.1	0.0	(0.1)	0.0
ISK .....	24.0	0.0	(29.3)	0.0
NOK .....	0.5	0.6	(0.7)	(0.5)

A positive number indicates a gain and a negative number indicates a loss.

The Group's sensitivity to foreign currency has increased during the current period against ISK due to maturity of swap contracts.

## 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. Foreign currency contracts are carried at fair value through profit or loss.

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

Outstanding contracts	Average exchange rate		Foreign currency		Contract value		Fair value	
	2009	2008	2009	2008	2009	2008	2009	2008
<b>Buy Euros</b>			EUR million	EUR million				
Less than 3 months.....	1.11	1.26	25.9	21.5	23.3	17.2	(0.2)	3.4
3 to 6 months.....	1.12	1.26	15.1	0.2	13.5	0.1	-	-
6 to 12 months.....	1.13	1.26	3.0	1.4	2.7	1.1	-	0.2
<b>Buy US Dollars</b>			USD million	USD million				
Less than 3 months.....	1.51	1.66	8.9	0.3	5.6	0.2	-	-
3 to 6 months.....	1.52	1.53	4.7	0.1	2.9	0.1	-	-
6 to 12 months.....	1.47	1.53	7.0	0.1	4.5	0.1	0.4	-
					52.5	18.8	0.2	3.6

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

Outstanding contracts	Average exchange rate		Foreign currency		Contract value		Fair value	
	2009	2008	2009	2008	2009	2008	2009	2008
<b>Buy US Dollars</b>			USD million	USD million				
Less than 3 months.....	-	1.92	-	3.0	-	1.6	-	0.5
3 to 6 months.....	-	1.92	-	3.3	-	1.7	-	0.5
6 to 12 months.....	-	1.92	-	3.5	-	1.8	-	0.6
<b>Buy Rand</b>			ZAR million	ZAR million				
Less than 3 months.....	-	15.29	-	53.6	-	3.5	-	0.4
3 to 6 months.....	-	15.30	-	21.4	-	1.4	-	0.1
					0.0	10.0	0.0	2.1

## Notes to the Consolidated Financial Statements

### Credit risk management

Credit risk refers to the risk of financial loss to the group if a 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 80% of the Group's revenue. These customers have 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	
	2009	2008
Financial assets and other credit exposures		
Trade and other receivables .....	189.8	262.5
Cash and cash equivalents .....	37.6	210.7
Guarantees to third parties .....	0.0	7.6
	<u>227.4</u>	<u>480.8</u>

### 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.

	2010	2011	2012	2013	Later	Total
<b>2009</b>						
<b>Liabilities</b>						
Interest bearing .....	377.0	3.1	595.4	0.6	1.4	977.5
Non-interest bearing .....	382.6					382.6
	<u>759.6</u>	<u>3.1</u>	<u>595.4</u>	<u>0.6</u>	<u>1.4</u>	<u>1,360.1</u>
<b>Assets</b>						
Interest bearing .....	37.6					37.6
Non-interest bearing .....	189.8					189.8
	<u>227.4</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>227.4</u>

Subsequent to the year end, the creditors of Bakkavör Group hf. have approved the Company's Composition Agreement which postpones the maturities of Bakkavör's listed Bonds and other indebtedness until 30 June 2014. For further detail refer to note 35.

# Notes to the Consolidated Financial Statements

## 31. 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 which is now closed to new employees of the Group.

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

	2009	2008
UK defined benefit plan net charge .....	4.2	3.6
UK defined contribution plan net charge .....	0.8	0.2
Overseas net charge .....	0.7	0.3
	<u>5.7</u>	<u>4.1</u>

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 based upon the latest full actuarial valuation at 31 March 2007 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 2009.

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:

	31.12.2009		31.12.2008	
	Expected rate of return	Estimated bid value	Expected rate of return	Estimated bid value
UK equities .....	7.9%	54.6	7.8%	51.7
Overseas equities .....	8.4%	55.5	7.8%	31.6
Corporate bonds .....	5.7%	30.6	6.5%	27.7
UK government bonds .....	4.5%	7.3	3.7%	7.0
Property .....	6.7%	8.4	6.9%	9.9
		<u>156.4</u>		<u>127.9</u>
Present value of scheme liabilities .....		<u>(169.6)</u>		<u>(127.5)</u>
(Deficit) surplus in scheme .....		(13.2)		0.4
Related deferred taxation liability .....		3.7		(0.1)
Net pension (liability) asset .....		<u>(9.5)</u>		<u>0.3</u>

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.

	31.12.2009	31.12.2008
Expected rate of salary increases .....	4.5%	4.3%
Future pension increases .....	3.2%	2.8%
Expected return on scheme assets .....	7.3%	7.2%
Discount rate applied to scheme liabilities .....	5.7%	6.5%
Inflation assumption .....	3.5%	2.8%

## Notes to the Consolidated Financial Statements

The amount charged to the Group's operating profit under IAS 19 of 4.2 million is analysed as follows:

	2009	2008
Current service cost .....	(3.2)	(5.3)
Interest on pension scheme liabilities .....	(8.1)	(8.6)
Expected return on assets in the pension scheme .....	7.1	10.3
	<u>(4.2)</u>	<u>(3.6)</u>

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

	2009	2008
Gain (loss) on assets .....	21.6	(51.3)
Experienced gain on liabilities .....	3.5	4.9
(Loss) gain on change of assumptions (financial and demographic) .....	(38.0)	29.3
Actuarial Loss .....	<u>(12.9)</u>	<u>(17.1)</u>

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

	2009	2008
Surplus in the scheme brought forward .....	0.4	18.0
Contributions paid .....	3.5	3.1
Current service cost .....	(3.2)	(5.3)
Net financial return .....	(1.0)	1.7
Actuarial loss .....	<u>(12.9)</u>	<u>(17.1)</u>
(Deficit) surplus in the scheme carried forward .....	<u>(13.2)</u>	<u>0.4</u>

### History of experienced gains and losses:

	2009	2008
Deficit between actual and expected return on scheme assets .....	(21.6)	(51.3)
% of scheme assets at the end of the year .....	13.8%	40.1%
Experienced gain on scheme liabilities .....	3.5	4.9
% of scheme liabilities at end of the year .....	2.1%	3.8%
Actuarial loss recognised in statement of recognised income and expense .....	(12.9)	(17.1)
% of scheme liabilities at the end of the year .....	7.6%	13.4%

## Notes to the Consolidated Financial Statements

### 32. Share-based payments

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

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

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

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 to Executive Management (*) .....	6,479,620	23.5.2008	23.5.2011	ISK 36.0	ISK 32.3
Issued to Middle Management and Senior Employees (*) .....	35,214,948	23.5.2008	23.5.2011	ISK 36.0	ISK 32.3

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

There were no options granted during the year. The weighted average fair value of the share options granted in the last financial year is ISK 12.19 (GBP 0.07567). Options were priced using the Black-Scholes option pricing model. For options granted in 2008 expected volatility was based on the historical share price volatility over the previous 5.5 years. It was assumed 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:

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at the beginning of the financial year .....	40,305,417	ISK 36,0	0	
Granted during the financial year .....			41,694,568	ISK 36,0
Forfeited during the financial year .....	(5,670,176)	ISK 36,0	(1,389,151)	ISK 36,0
Balance at the end of the financial year .....	34,635,241	ISK 36,0	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 36.0 and a weighted average remaining contractual life of 508 days.



# Notes to the Consolidated Financial Statements

---

## 33. Other matters

The Group has purchased a business interruption insurance to the amount of GBP 1,018 million.

## 34. Related party transactions

The following transactions were carried out with related parties:

### Tjarnargata 35 ehf.

Bakkavör Group hf. has a rental agreement with Tjarnargata 35 ehf. which is owned by Ágúst Guðmundsson, CEO and Lýður Guðmundsson, Chairman of the Board of Bakkavör Group hf. Rent paid was GBP 19.2 thousands in 2009 and GBP 18.0 thousands in 2008.

### Exista BV and related parties

	<u>2009</u>	<u>2008</u>
Net rent received .....	0.8	0.7
Finance charge .....	(0.4)	(0.4)
	<u>31.12.2009</u>	<u>31.12.2008</u>
Debt .....	(6.9)	(6.1)

### Associates

	<u>2009</u>	<u>2008</u>
Sales of goods and services to associates .....	0.0	0.7
Purchases of goods and other services from associates .....	0.7	0.7

The above transactions were carried out on commercial terms

# Notes to the Consolidated Financial Statements

## 35. Events after the Balance Sheet date

On 18 January 2010 Bakkavör Group HF entered a composition period, having got agreement from 80% of the creditors to discuss proposals for the restructuring of the Icelandic debt.

On 4 March 2010 the creditors of the Company approved the Composition Agreement with 90% votes in favour (98% by value). The Composition was confirmed by the court on 25 March 2010 and was effective on 6 April 2010.

A shareholders meeting on 26 March 2010 approved necessary amendments to the Articles of Association.

The composition agreement extends the maturities of Bakkavör's listed Bonds and other indebtedness until 30 June 2014. Bakkavör's creditors will convert approximately 1% of the Company's debt into new shares (B Ordinary shares), which will amount to 26 ⅔% of the total ordinary voting share capital of the Company (A and B Ordinary shares). The conversion ratio is 1:1 (1 B Ordinary Share for each 1 ISK of the debt).

55% of Bakkavör's remaining debt will be classified as Convertible Debt which carries interest at a rate of three months REIBOR plus Margin. The Margin is 3.00% per annum until 30 June 2012 when it becomes 3.50% until 30 June 2013 when it becomes 4.00% until the maturity date, the interest will not be payable until 30 June 2014. Any convertible debt and interest unpaid as at 30 June 2014 will be automatically converted to A ordinary share capital on a ratio of 5:1 (Debt to share capital).

The remaining 45% of Bakkavör indebtedness will be converted into newly issued preference shares (C shares) in Bakkavör at a conversion ratio of 1:1 (1 C Ordinary Share for each 1 ISK of the debt). These shares carry no dividend or voting rights and will be automatically converted to A ordinary share capital on 30 June 2014 at a ratio of 3:1 (C shares to A shares). These shares can be redeemed at the behest of the Company at an agreed price.

### Proforma income statement

The following shows the impact on the income statement had the composition agreement been in place in 2009:

	Income statement as per accounts*	Impact of composition	Proforma 2009 accounts
<b>Operating profit</b> .....	<b>90.6</b>	<b>0.0</b>	<b>90.6</b>
Net finance cost .....	(82.8)	15.8	(67.0)
<b>Profit before tax</b> .....	<b>7.8</b>	<b>15.8</b>	<b>23.6</b>
Income tax .....	11.5		11.5
<b>Profit for the year</b> .....	<b>19.3</b>	<b>15.8</b>	<b>35.1</b>

\* Before restructuring, refinancing and other gains and losses.

### Proforma financial position

The following table shows the impact of the composition arrangement on the year end financial position numbers:

	Financial position as per accounts	Impact of composition	Proforma 2009 accounts
<b>Total assets</b> .....	<b>1,479.4</b>	<b>0.0</b>	<b>1,479.4</b>
<b>Equity</b> .....	107.6	144.2	251.8
Convertible debt .....	0.0	171.9	171.9
<b>Equity and convertible debt</b> .....	<b>107.6</b>	<b>316.1</b>	<b>423.7</b>
Other non current liabilities .....	612.2	(5.9)	606.3
Current liabilities .....	759.6	(310.2)	449.4
<b>Total equity and liabilities</b> .....	<b>1,479.4</b>	<b>0.0</b>	<b>1,479.4</b>

The proforma statements have not been audited by the auditors.

## Notes to the Consolidated Financial Statements

---

### 35. Events after the Balance Sheet date (continued)

On 28 March 2010, Bakkavör Estates Limited, which holds the UK freehold properties of the Group, refinanced its facility through the Group's main UK banking facility in Bakkavör London Limited.

### 36. Approval of the Consolidated Financial Statements

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 7 April 2010.