Annual Report 2007

ársskýrsla 2007

Icelandic Group	31 December 2007
Employees	4,941
Stock	ISK 2,893,248,244
Number of shareholders	19,791
Share price	5.17

Ten largest shareholders on 31 December 2007	
Fjárfestingarfélagid Grettir ehf.	28.6%
FAB GmbH	20.4%
TM fé ehf	13.1%
Magnús Thorsteinsson	10.9%
Hf. Eimskipafélag Íslands	7.6%
BOM fjárfestingar ehf.	3.8%
Raffeisen Zentralbank Österreich	3.5%
Straumur-Burðarás Investment Bank hf.	3.1%
Glitnir Bank hf.	2.1%
Landsbanki Luxembourg S.A.	2.0%
Total 10 largest	95.1%

* According to the shareholder's register, Landsbanki Luxembourg holds 12.8% of all shares as a custodian bank. In the table the shareholdings have been reallocated according to notifications to OMX Nordic Exchange in Iceland.

Board

Magnús Thorsteinsson, Chairman
Gudmundur P. Davídsson, Vice Chairman
Adalsteinn Helgason
Stefán Á. Magnússon
Steingrímur H. Pétursson

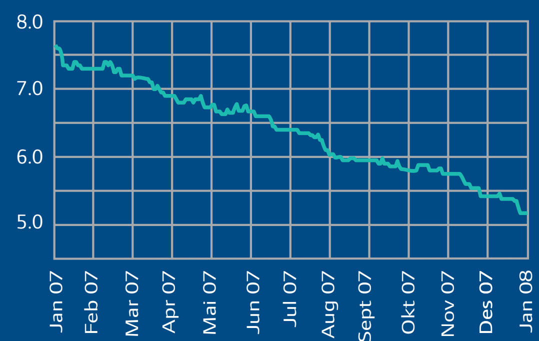
Management

Executive Board:
Finnbogi A. Baldvinsson, CEO of Icelandic Group
Ingvar Eyfjörd, Deputy CEO
Finnbogi Gylfason, Director of Internal Control
Aevar Agnarsson, CEO of Icelandic USA
Ellert Vigfússon, CEO of Icelandic Asia

Managing Directors of Subsidiaries

Coldwater Seafood	Anita Barker
Fiskval	Elfar Bergthórsson
Icelandic Asia	S.A. Park
Icelandic France	Jean-Max Martel
Icelandic Iberica	Hjörleifur Ásgeirsson
Icelandic Japan/Marinus	Jón Magnús Kristjánsson
Icelandic Northwest	Peter Trost
Icelandic Norway	Jón Gardar Helgason
Icelandic Services	Valdimar Óskarsson
Icelandic UK	Magni Thor Geirsson
Icelandic USA	Aevar Agnarsson
Jeka Fisk	Halldór Arnarson
Pickenpack Gelmer	Torsten Krüger
Pickenpack H&H	Wolfgang Kohls
Seachill	Malcolm Eley
Sirius	Gudjón I. Gudjónsson
Sjóvík	Ellert Vigfússon

Market price of shares in Icelandic Group



Financial Calendar 2008

Interim results for the year 2008 will be published on the following dates:
Q1 Week 20
Q2 Week 33
Q3 Week 46
Q4 and Annual Financial Statements Week 10 2009

Stock Exchange

Icelandic Group's shares are quoted on the OMX Nordic Exchange in Iceland (www.omxgroup.com/nordicexchange/)
Symbol: IG
Trading currency: ISK

Principal banks of Icelandic Group

Iceland
Glitnir Bank
Landsbanki Íslands

Denmark
Danske Bank
FIH
Landsbanki Íslands
Vestjysk Bank

Germany
Bankhaus Lampe
Deutsche Bank
HSH Nordbank
Rabobank

France
Banque KOLB
Fortis Bank
Landsbanki Íslands
Socitéte Générale

France
Banque KOLB
Fortis Bank
Landsbanki Íslands
Socitéte Générale

Spain
BBVA
Deutsche Bank
Fortis Bank

UK
Glitnir Bank
Landsbanki Íslands
Yorkshire Bank

USA
Bank of America
Landsbanki Íslands
Wachovia

Annual Report 2007

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Address by the Chairman of the Board

The year 2007 was a year of vast transformation for Icelandic Group. We set out to make extensive and decisive changes to benefit the Company and its shareholders. Unfortunately this work has taken longer than we had estimated. When one attempts to change the course of a large and heavy vessel, that change in direction happens very slowly. Yet despite the fact that it has taken longer than we would have liked, a new course has clearly been set. The Company's Board and Management firmly believe that the work already carried out will deliver results as the new year progresses. Our task is not finished and will, in fact, never be finished, but major stages in the process are behind us and others just up ahead. Our goal is simple: to strengthen Icelandic Group and ensure that it delivers acceptable profits to its shareholders.

An eventful year

The year 2007 was certainly eventful for Icelandic Group. In the United States a decision was made to accelerate the closing of the Cambridge plant by six months. The plant closed in June and all production was moved to Newport News, to a newer and more efficient plant. This was the final phase of the merger between Icelandic USA and Samband of Iceland, which began in 2005. The company's properties in Cambridge were sold at the end of the year, as was all inventory owned by the subsidiary Ocean to Ocean in the US. The board hopes and believes that these measures in the United States will finally serve to turn operations around, as Icelandic Group in the US has been suffering losses for some time.

Our measures in the United States are symbolic of the work being carried out in all Icelandic Group departments. Our aim is to maximize the processing power of our manufacturing firms while simultaneously reducing debt through the sale of assets. The strategies that the Company's Board has approved and which it is currently, along with the management, using as a blueprint for action, give reason for optimism. An improvement in operations may be expected as early as this year.

New CEO

Björgólfur Jóhannsson, Icelandic Group's CEO announced his resignation towards the end of the year. He went on to assume the post of CEO of Icelandair, and I wish him all success. Naturally it is difficult for a company to come to grips with that sort of change while in the midst of a difficult process. Bubbi, as he likes to be called, led the reorganisation process within Icelandic Group and it would have served the Company best had he been able to finish it. However, the baton has now been passed to a new man: Finnbogi A. Baldvinsson, who was appointed CEO in early February. He has a great deal of experience and it will be his role to ensure that Icelandic Group utilizes the vast amount of work already put into the reorganisation process as well as possible.

The Grocer Own Label Award

Icelandic Group is now placing increasing emphasis on value-added production, which has been a great success. In a fast-growing world, new demands for wholesome and healthy foods are emerging, and there Icelandic Group has a significant role to play. We have demonstrated and proven that we can meet changed market demands. For that reason it was particularly pleasing that Coldwater Seafood UK should receive the esteemed Grocer Own Label Award 2007 for the best product in the Frozen Fish category. The meal in question was smoked haddock, produced for Tesco.

Icelandic Group at a crossroads

Icelandic Group is currently at a significant crossroads. Increased profitability is the fundamental requirement set by the Company's Management and Board. I have high hopes that 2008 will demonstrate to shareholders and investors alike that we are on the right course. For this to be possible, everyone must band together. I would like to extend my sincere thanks to Icelandic Group's staff for their fine work last year, and at the same time urge everyone to join in the continued effort to make the Group a leader in its field worldwide.

Magnús Thorsteinsson
Chairman of the Board

CEO Review 2007

The year 2007 was a difficult year for Icelandic Group and its shareholders. Enormous energy has been invested in restructuring of the Group and we have made some big steps in the right direction. Many of the companies in the Group performed well. We have seen that consumers appreciate our products, and fish is increasingly seen as essential to a healthy diet. Therefore our potential is great and we need to capitalize on that fact.

Fish pricing and availability

Fish Sourcing and availability continues to be extremely difficult. We have seen inflation of 7 to 10% over the last 12 months. Our ability to recover price increases has improved over previous years due to stronger information management systems and we have achieved better results. However, it is difficult to pass on all of these increases as we need to be careful that fish continues to be attractive to consumers who have various other alternative sources of proteins.

Time is key factor

Fish continues to be a firm favourite on the menu. Throughout the world health awareness continues to drive mealtime buying decisions both at home and in restaurants. We see no evidence of this trend coming to an end. Also, in the prepared meals area, research is indicating that time continues to be a prime driver of menu choice with the desire to prepare food quicker being a key factor. Fish wins in this area, as it is one of the fastest and most versatile proteins to work with.

Variety is also driving demand, and as a result of the need for sustainable fisheries we are seeing a greater range of products and more adventurous catches entering the markets. The demand for salt cod, which is produced by Jeka Fish in Denmark, is evidence of this trend. In the UK we have seen the launch of new species for this market such as Tilapia, Pollock and Hake.

Versatility is also driving demand. It is so easy to convert plain and simple fish with the addition of quality sauces and spices into a varied main meal. This flexibility is driving demand over all markets.

Economic Trends

The subprime market collapse in the US has clearly had an impact on our business in two ways. First, we are seeing a slowdown in sales volume and a real change in eating habits as people switch from eating out to eating in as a result of budget constraints. This appears to be a general trend across all developed economies. In addition, we are seeing a switch from premium products to more traditional value products in certain economies. This will not affect us heavily, as we produce a variety of products across all businesses.

Second, and more immediately, this collapse made our funding situation very complex in the final quarter of the year. Evidence of credit tightening across the banks and insurance providers was evident and stretched our liquidity. A significant amount of management time was devoted to the resolution of these problems. The efforts will have a positive impact on the outcome for 2008 and facilitate the company's trading.

Acquisition Policy

We announced back in 2006 that we intended to focus on our core business areas and we said that showing positive results from existing investments would become a priority for the Group. There has been no change in this strategy and we will continue to focus on the core business using our key strengths.

Plans for 2008

My vision for the Group for 2008 is one of a decentralized, empowered business with senior management who know their business, market and customers well and who operate autonomously. We will use the power of the Group when it is to our advantage in the areas of procurement or transfer of technical know-how, where we have to have a single voice. We will continue to focus on the use of highly accredited fish providers to ensure that in the long term we are protecting our only prime ingredient – Fish.

I am confident that whilst trading will continue to be challenging due to the economic environment, we have people who are skilled at what they do and are capable of meeting the challenge.

I look forward to the year ahead.

Finnbogi Baldvisson
CEO

Outlook and future vision

Icelandic Group consists of an international network of production and marketing companies selling seafood products on global markets. In several markets the company enjoys a prominent position with its brand ICELANDIC, especially within the food service sector. Icelandic Group is also a major supplier to the retail sector through its branded or private label production. Our mission is to maximize long-term shareholder value by acquiring, restructuring and managing companies in the food processing industry, while providing our people with opportunities for growth and accomplishment.

We aim to support a 21st century lifestyle by supplying healthy and affordable food, both fresh and frozen. Retailers, restaurants, distributors and organisations will recognize us as an industry leader based on our efficiency, superior service and products.

Icelandic Group's ambition is to be a leader in its field and a provider of expert knowledge on seafood for its customers in all market areas. Icelandic Group will continue to focus on its strong points: production and sale of seafood in the most important markets worldwide. The Group defines itself as a seafood expert, and that is how it operates for its customers who rely on it as a specialized supplier. Icelandic Group is focused on widening its product range in order to fulfil customer needs.

Icelandic Group is an international network of companies, each operating in its own market in the processing and marketing of seafood. The Group employs about 4,900 people. The personnel include renowned experts in the fields of fishing and primary processing, product innovation and value-added processing, and in the worldwide marketing of seafood products.

Icelandic Group has emerged in recent years as a supplier of fresh, chilled and salted seafood. This category is rapidly expanding in the retail business, fulfilling customer expectations for fresh, natural and convenient food. The company has invested in a number of concerns in order to fully participate in this development, which is most advanced in the UK.

With the purchase of 51% share in Beihai Beilian Foods Industry in China, Icelandic Group is entering a new field; i.e. farming and processing of fish, with Tilapia as the main product. Tilapia is a whitefish species which has increased its market share significantly in the last few years, gaining shares from more expensive species such as Cod. Tilapia is the second largest farmed species in the world with over 2 million tons produced in 2006. Tilapia is number five on the list of consumed species in the US with Cod at number eight. Consumption is expected to show continued growth.

Restructuring has been completed in Icelandic France and Icelandic USA. Icelandic France has closed down all offices except one, in Paris, and inventories have been reduced significantly. Icelandic USA´s plant in Cambridge Maryland was closed and sold during the year as a final step in the merger of Icelandic USA and Samband of Iceland. The US inventories and trademarks of Icelandic USA subsidiary, Ocean to Ocean, were sold in 2007 and the Canadian inventories and trademarks were sold in February this year. Restructuring has come a long way in Coldwater. Products have been shifted from Coldwater UK to Pickenpack Gelmer as Coldwater focuses on the production of ready meals.

The year 2007 was an extremely difficult year for Icelandic Group. The restructuring process that the Group has continually said to be in progress has been delayed and it is now apparent that the originally targeted objectives were unrealistic. The process of simplifying the very complex operations of the Group is now in force with the divestments and closing of plants and offices. This process has allowed us to clarify the future objectives of each individual operational unit. The results of this process are already showing and the Group is now in a strong enough position to take on its role as a leader in the seafood industry.

It is estimated that the Group will have reached a balance in Q3 2008 and that the Group will show a profit in 2009. The Group will now focus on operations and leverage acquisitions and purchases of companies are now in the past. One of Icelandic Group's main tasks is to react to changed operations of the Group, which are characterised by increased raw materials along with increased financial costs with a decrease in other operational costs and price increase of produce.

Milestones

Year	Milestone
1942	Foundation of the Company
1945	Sales office opened in the US
1946	First sales office opened in Europe
1954	Value-added processing plant opened in the US
1967	New value-added processing plant opened in Cambridge, Maryland, USA
1981	Sales and marketing company established in Hamburg, Germany
1982	New value-added processing plant opened in Grimsby, UK
1988	Sales company established in France
1989	Sales agency established in Tokyo, Japan
1996	Merger with Faroe Seafood in Grimsby, UK
1996	Sales company established in Barcelona, Spain
1996	Changes in company charter, a public limited company is formed
1997	Sales company established in Norway
1998	Icelandic UK established in Lincoln, UK
1998	Company shares registered on the Iceland Stock Exchange
2002	Acquisition of chilled processing plant in Redditch, UK
2003	Acquisition of Ocean to Ocean (OTO) in the US
2003	Acquisition of Barogel in Marseilles, France
2003	Acquisition of Neptune Fisheries in the US
2004	Icelandic China established
2004	Acquisition of Seachill in Grimsby, UK
2004	Acquisition of Comigro Geneco in Paris, France
2004	Acquisition of the seafood division of Cavaghan & Gray in Grimsby and Aberdeen, UK
2005	Acquisition of Ecomsa in southern Spain
2005	Merger of Blue Ice Group and Icelandic Group
2005	Acquisition of Dalian Three Star, China
2005	Acquisition of Fiskval, Iceland
2005	Acquisition of Pickenpack H&H Seafood in Germany
2006	Acquisition of Jeka Fish in Denmark
2006	Acquisition of Delpierre's Gelmer in France
2007	Acquisition of Sirius in Iceland
2007	Acquisition of Beihai Beilian Foods Industrial in China
2007	Sale of VGI in Iceland

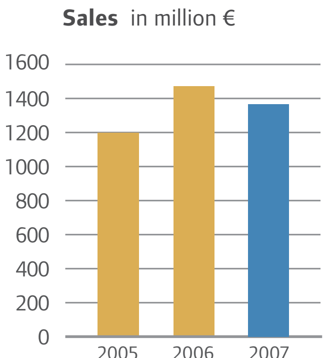
Icelandic Group was formerly known as the Icelandic Freezing Plants Corporation (IFPC). Founded in 1942 by a number of fishing and processing companies, the purpose of IFPC was to sell frozen seafood from the plants in foreign markets, purchase packaging and other goods for their needs, explore new markets and develop new products and processing technology.

IFPC was for most of its history owned by fish-processing companies and sold their products by mutual obligations of delivery and sales. The Company structure was changed in 1996 when it became a public limited company, and two years later it was registered on the Iceland Stock Exchange. The former owners gradually sold their shares, and new shareholders emerged.
The mutual obligations in delivery and sales were lifted, and the business developed in line with contracts between unrelated companies.

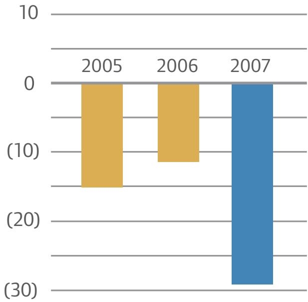
Icelandic Group has therefore grown from strong roots. The Company has expanded its operations rapidly in past decades, especially in the most important markets for Icelandic seafood. The Company has invested significantly in the production and marketing of fresh and chilled seafood and in salted Cod in addition to its investment in the marketing of frozen products. Icelandic Group now defines its operations more widely than ever before.

Highlights of the year

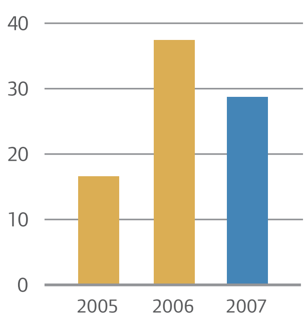
Sales in million €



Net loss in million €



EBITDA in million €



January: Icelandic Iberica acquired Sirius ehf. an Icelandic company specialising in purchase and sale of salted cod.

March: CEO presented new organizational structures for Icelandic Group.

April: Icelandic Group sold VGI. The agreement became effective on 20 April 2007 when new owners took over the company. The sales proceeds were incorporated in Q2 interim statement 2007.

May: The Group finalised the acquisition of 51% share in Beihai Beilian Foods Industry, farming and processing company in China with Tilapia as the main product.
Malcolm Eley appointed Managing Director of Seachill. Malcolm has been part of the team at Seachill since 1999. Before that he worked for 9 years in the chilled retail market.
Mike Walker remains on the Board of Directors of Seachill and will act as an advisor for the company.

June: The Cambridge plant of Icelandic USA in Maryland closed earlier than previously planned.
Coldwater Seafood UK was awarded The Grocer award for the most outstanding product in the frozen fish category. The award was presented for the Tesco Finest Steam Fish Smoked Haddock Florentine, which is produced for Tesco in the Coldwater plant in Grimsby.

August: Gudmundur Stefansson, Managing Director of Icelandic Group subsidiary Pickenpack Gelmer SAS resigns from his post as Managing Director. Torsten Krüger took over the position. Previously Torsten Krüger worked within Pickenpack-Hussmann & Hahn as CFO since 2001.

December: CEO of Icelandic Group resigned his position which he has held since March 2006. The CEO left his post in the middle of January 2008.
Icelandic USA sold the production facility and related equipment in Cambridge USA as well as Ocean to Ocean inventory in the USA and related USA trade.

Board of Directors

The present Board of Directors was elected at the Annual General Meeting on 23 March 2007. Following the meeting, the new Board re-elected Magnús Thorsteinsson Chairman, who had served as Chairman since November 2006. The Board has five members and two alternate members. Baldur Örn Guðnason resigned form the Board of Icelandic Group in March 2008. Stefán Á. Magnússon, an alternative Board member, replaced him. The alternate members is Páll Thor Magnússon.

Magnús Thorsteinsson
Chairman of the Board
Magnus has served as board member of Icelandic Group from October 2005 and Chairman of the Board since November 2006. He is the former Executive Chairman of Hf. Eimskipafélag Íslands. Magnus is an entrepreneur and investor with significant interests in transportation services. He began his investment activities in Russia, where he was the co-founder of the Bravo brewery in St Petersburg. After nearly ten years of expansion, Bravo was sold to Heineken NV. Magnus graduated from Bifrost School of Business.

Guðmundur P. Davídsson
Vice Chairman of the Board
Gudmundur P. Davídsson has held a seat on the Board since March 2007. He has served as the CEO of Eimskip´s operations in Iceland since September 2007. He has held various senior management positions throughout his career in Iceland and in Europe, in banking, in the seafood industry and in shipping and transportation. Gudmundur was a member of the Board in TM hf. Insurance Company from 2006–2007 and is currently a Board Member of SP Finances and Arvakur Publishing.

Adalsteinn Helgason
Board Member
Adalsteinn Helgason has held a seat on the Board since March 2006. He has served as CEO of Síldarvinnslan, a fishing and fish processing company, since the beginning of 2006 and the Managing Director of Katla Seafood Ltd since June 2007. Adalsteinn has held various senior management positions through his career. In the years 1992–2005 Adalsteinn was part of Samherji's management team in Akureyri. Adalsteinn graduated in business administration from the University of Iceland in 1976.

Stefán Á. Magnússon
Board Member
Stefán has been a board member since March 2008 and an alternate Board Member since March 2007. Stefán Magnússon joined Eimskip as Senior Director of Financial Control in February 2002, and was appointed Senior Director of Finances in December that same year. He became Executive Vice President of Finances in August 2004 and is now the CEO / President of Hf. Eimskipafelag Islands. Stefán earned a Cand Merc degree from the Finance and Accounting Faculty of the Copenhagen Business School in 1997. He graduated with a Cand Oecon degree from the University of Iceland in 1993.

Steingrímur H. Pétursson
Board Member
Steingrímur H. Pétursson has been a board member since March 2007 and was an alternate board member before that. He has been the CEO of Sjöfn Investment Company hf. since 2006. He worked as the CFO for Hf. Eimskipafélag Íslands in 2005–2006, Sjöfn chemical company in 2001–2005 and for KPMG Iceland in 1994–1999. He graduated with a business degree from the University of Iceland in 2001.

Shareholders issues

Our shareholders

Icelandic Group is constantly aiming at increasing the shareholder value. The growth process and new focus on product selection have resulted in substantial reorganisation throughout the organisation. The Company expects that these measures will soon become evident through enhanced operations. Our aim is to build a better company for our shareholders.

Issues of shares

A shareholders' meeting of Icelandic Group hf., held on 14 December 2005, approved authorizing the Board of Directors to increase the company's share capital by up to ISK 2,000,000,000 through the sale of new shares. The shareholders agreed to waive their pre-emptive rights to the increase in share capital, as provided for in Article 34 of the Act on Public Limited Companies, No. 2/1995. The offer price and sales rules are determined by the Board in accordance with Chapter V of the Act on Public Limited Companies, No. 2/1995. The authorisation may be utilised all at once or in parts, at the discretion of the Board. No restrictions may be placed on transactions with the new shares, which shall confer rights in the company from the date of listing and are subject to the company's Articles of Association. The remaining amount of the authorisation was 1,663,252,171 shares. The authorisation is valid until 14 December 2008.

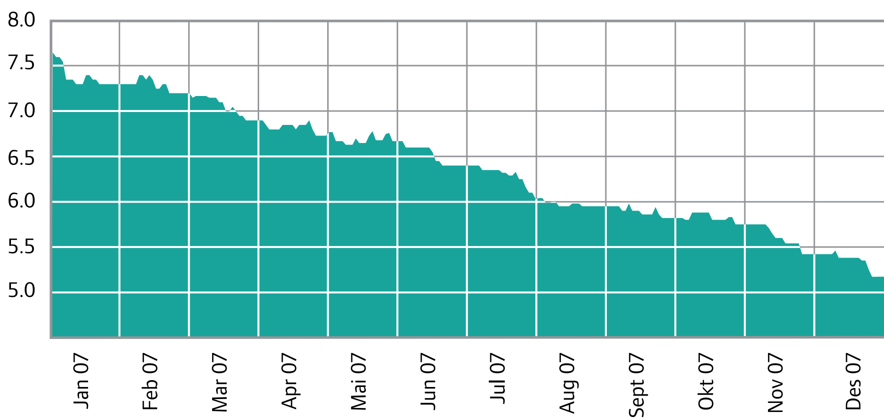
A shareholders' meeting held 16 January 2007 approved the Board's proposition regarding authorization to take on credit up to the amount of ISK 5.0 billion, with special conditions providing the creditor a right to convert his claim to shares in the Company in accordance with Chapter VI of the Act on Public Limited Companies, No. 2/1995. The Board of Directors was authorised to increase the share capital by up to the nominal amount of ISK 1,100,000,000 to fulfil the above-mentioned obligation. The authorisation has not been exercised.

Shareholding summary

Board member	shareholdings*
Adalsteinn Helgason	19,603,718
Gudmundur P. Davídsson	819,601,530
Magnús Thorsteinsson	529,726,493
Stefán Á. Magnússon	216,806,275
Steingrímur H. Pétursson	0

** Includes shares of financially related parties*

Market price of shares in Icelandic Group



Ten largest shareholders at 31 December 2007

Fjárfestingarfélagid Grettir	28.6%
FAB GmbH	20.4%
TM fé ehf	13.1%
Magnús Thorsteinsson	10.9%
Hf. Eimskipafélag Íslands	7.6%
BOM fjárfestingar	3.8%
Raffeisen Zentralbank Österreich	3.5%
Straumur – Investment Bank	3.1%
Glitnir Bank	2.1%
Landsbanki Luxembourg	2.0%
Total 10 largest	95.1%

* According to the shareholder's register Landsbanki Luxembourg holds 12.8% of all shares as a custodian bank. In the table the shareholdings have been reallocated according to notifications to OMX Nordic Exchange in Iceland.

Price of shares

Icelandic Group's shares were listed on the OMX Nordic Exchange in Iceland (then Iceland Stock Exchange) on 17 February 1998 with the ticker IG. The market value of Icelandic Group as of 31 December 2007 was € 164.5 million. The accompanying figure shows Icelandic Group's share price over the past 12 months.

Market making

Icelandic Group hf. has an agreement with Landsbanki and Glitnir Bank for market making in the Company's shares. The banks are each obliged to quote bid and ask prices for a minimum of ISK 500,000 nominal par. The maximum total amount which each bank is obliged to trade each day is ISK 5,000,000 shares. The bid and offer spread must not exceed 3% while the agreement is in force. The market-making agreement may be terminated by either party with one month's notice.

Major shareholders and relations to management

The number of shareholders at year-end registered on the shareholders register was 19,791 compared with 21,122 at year end 2006.

Fjárfestingarfélagid Grettir owns a total of 28.6% of Icelandic Group's share capital. Gudmundur P. Davídsson, Director in the Board of Fjárfestingarfélagid Grettir and CEO of Eimskip´s operations in Iceland, is the Vice Chairman of the Board of Icelandic Group.

FAB GmbH owns 20.4% of Icelandic Group's share capital, which it acquired as a result of Icelandic Group's acquisition of Pickenpack. Finnbogi A. Baldvinsson, CEO of Icelandic Group, holds a predominant share in FAB GmbH. He also holds shares through Eldar ehf. registered owner of 0.7% of Icelandic Group's shares.

TM fé is an investment company wholly owned by TM Insurance. FL Group is the owner of TM Insurance.

Shareholders issues

No. of shares	Shareholders	Ratio	Shares	Ratio
1 – 9,999	19,621	99.14%	4,050,771	0.14%
10,000 – 49,999	106	0.54%	2,094,510	0.07%
50,000 – 99,999	17	0.09%	1,064,325	0.04%
100,000 – 999,999	23	0.11%	7,395,123	0.26%
1,000,000 – 9,999,999	11	0.06%	46,894,942	1.62%
10,000,000 – 99,999,999	5	0.02%	231,678,483	8.01%
100,000,000 –	7	0.03%	2,577,617,092	89.09%
Own shares	1	0.01%	22,452,998	0.77%
	19,791	100%	2,893,248,244	100%

Magnús Thorsteinsson, Chairman of the Board of Icelandic Group, owns 14.7% of Icelandic Group shares through Landsbanki Luxembourg and BOM fjárfestingar ehf.

Hf. Eimskipafélag Íslands owns 7.6% of Icelandic Group shares. Stefán Á. Magnússon is CEO of Eimskip and a Director of Icelandic Group.

Dividends

The Company's AGM, held on 23 March 2007, approved a motion to the effect that no dividends would be paid to shareholders on 2006 operations.
Icelandic Group does not have a fixed policy concerning dividends. The Company has grown rapidly with investments in other companies in the last few years. While this strategy is followed, we can expect dividends to be moderate.

The Board of Directors recommends that no dividends be paid in 2008.

Dividends 2002-2007

Year	Dividend as share of nominal amount	Paid dividends (ISK)	Share of profits
2007	0%	0	0%
2006	0%	0	0%
2005	0%	0	0%
2004	10%	145,262,127	20%
2003	7%	104,591,154	21%
2002	15%	223,978,934	36%

* Dividend payments for the operating years 2002-2004 were made in 2003-2005

Employee stock options

Icelandic Group has no existing general stock option plans. In August 2004, the Company's Board approved an increase of ISK 55 million in its share capital, in accordance with an authorisation in the Company's Articles of Association. The new share capital was sold to 11 managing directors and the CEO at a share price of 6.4, which was the market price at the time. In parallel to the sale, the Company granted its Managing Directors put options for their shares at the same price plus financing costs. The Managing Directors were obliged to hold their shares for three years from the date of purchase, or until August 2007. These contracts were settled in September 2007.

Compliance

Icelandic Group employs strict rules on compliance, insider information and insider trading in accordance with regulations and rules by the Financial Supervisory Authority. For further information see page 42.

Investor relations

Financial results are issued quarterly, and, together with regulatory announcements, they are first published on the OMX Nordic Exchange in Iceland website: www.omxgroup.com/nordicexchange/ and on the company website: www.icelandic.is. In addition, the website contains various, additional items of information that can be valuable in becoming better acquainted with the Company and its operations.

Icelandic Group has a policy of ensuring that the flow of information to shareholders and other investors contributes to the fair valuation of the company. Do not hesitate to contact us for further information about shareholder and investor issues at: investor@icelandic.is.

Structure & organisation

The Group in short

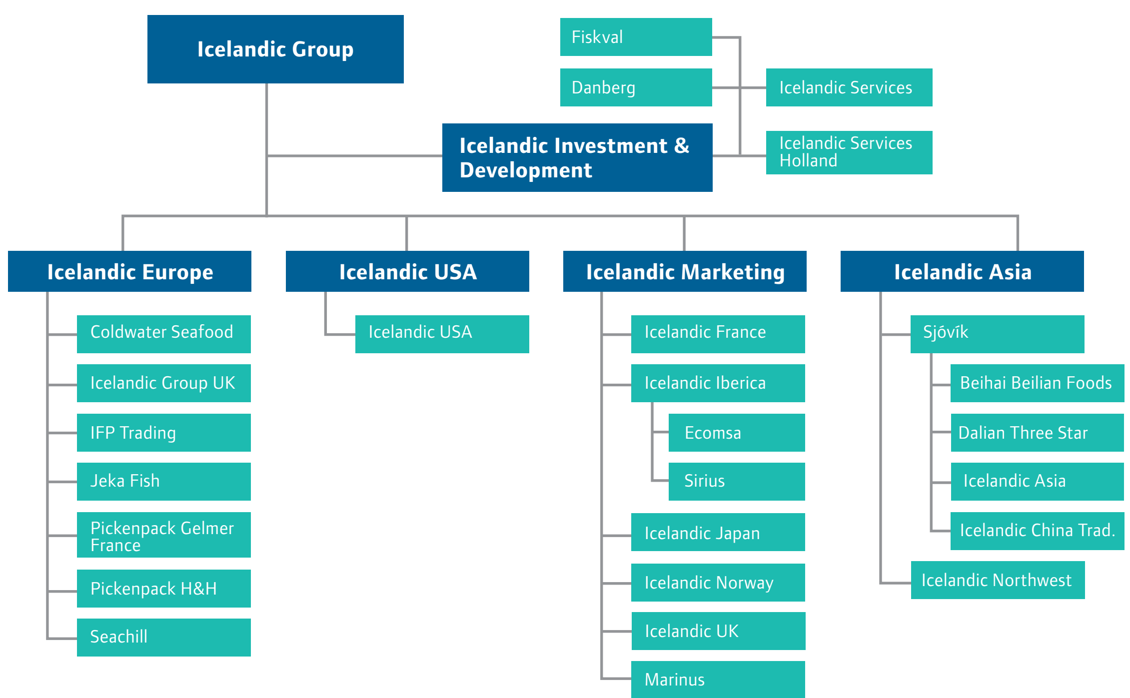
Building on strong historical roots, Icelandic Group has developed, in the space of only a few years, from having a product line limited to frozen fish, most of which came from Iceland, into an international seafood company able to offer its customers a selection of marine and aquaculture products from around the world.

Icelandic Group is a holding and investment company, controlling an international network of production and marketing companies selling seafood products on international markets. The Group's activities are carried out by its 34 subsidiaries, located in 12 countries.

The role of the holding company is to formulate the Group's strategy, supervise its subsidiaries, co-ordinate planning and budgeting and take decisions on investment in new companies. The holding company is responsible for supervising its subsidiaries' operations. It co-ordinates various aspects of their activities, such as information disclosure, financing and publications, and provides various types of support. The holding company looks after relations with shareholders, investors and other market actors and is responsible for all information disclosure in this connection. The holding company has five employees.

New organisational structure

In March 2007, Icelandic Group announced a new organisational structure. The main change was the division of the Group's operations into four main pillars, Icelandic Asia, Icelandic Europe, Icelandic USA and Icelandic Marketing. The purpose of this change is to sharpen the focus on the operation of all units within Icelandic Group. All service and investment operations are included in Icelandic Investment and Development.



Why eat fish?

Scientific research results showing the great benefit of eating fish, is piling up. Not only is fish a well-known source of Omega-3 fatty acids but fish has been shown to provide the healthiest protein for humans. Besides fish is an important source for vitamin A and D and some essential minerals such as iodine and selenium. Omega 3 fatty acids, found in fish, are essential to human health but are not produced in the human body. Also, Omega-3 fatty acids, are a family of polyunsaturated fatty acids which play a crucial role in brain function as well as growth and development. The American Heart Association recommends eating fish at least twice a week in order to obtain these essential fatty acids. In recent years mental health has been becoming a larger problem than obesity and heart disease and is now said to be the leading medical health problem in Europe. The rise in brain disorders and mental health problems has been associated with a deficiency in Omega-3 oils and one way to tackle this problem is to eat more fish. Populations in some developed countries are said to be fifty times more likely to develop depression than populations such as Japan, where seafood consumption is very high. More and more scientific evidence is linking brain disorders and diet, and researchers have suggested that western meat and wheat-based diets, along with the falling consumption of seafood-based Omega-3 fatty acids are the main cause for this significant rise in mental problems. There are three types of Omega-3 fatty acids that are ingested in foods and used by the body: Alpha-linolenic acid (ALA), Eicosapentaenoic acid (EPA) and Docosahexaenoic acid (DHA).

Some researches have shown that:

- EPA and DHA on a daily basis enriches blood lipids
- Fish consumption has been associated with protection from cardiovascular disease
- Fish oil improves artery elasticity
- Consumption of fish oils rich in EPA and DHA may reduce symptoms of bipolar disorder
- Children with depression benefit from Omega-3 supplementation
- Pregnant woment supplementing with fish oil have been shown to have positive outcomes in fetal development
- Women who get DHA in their diet during pregnancy are less likely to suffer from post-partum depression than those who are low in DHA
- Fish fatty acids have been linked to mature brain development in infants

Did you know....

One third of cancers are diet related

The rising incidence of brain disorders is the biggest threat and medical cost to society

Many of the major disorders in society are related to the lack of seafood in the diet

Omega-3 (DHA) is essential for nerve cell membranes

Our proteins are determined by our DNA but our diets determine our fatty acids

Seafood is the only natural diet that provides DHA and EPA

Vegetarian based Omega-3 products do not provide EPA and DHA

Our bodies are used to digesting fish with fatty acids being one of the benefits

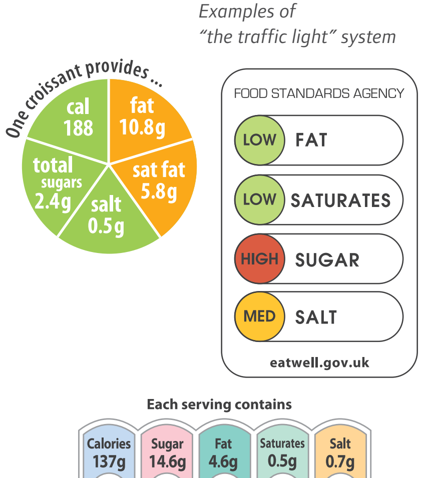
40 percent of women and 70 percent of men are short of selenium in their diets, provided by fish

Fish is a good source of Vitamin D

EPA is anti-inflammatory. Eyesight deteriorates and joints ache as arteries get clogged

Eating seafood will help to correct the ratio between Omega-3 and Omega-6 fatty acids, the ratio has, however, worsened in recent decades

Food trends



Examples of "the traffic light" system

Low fat and healthy living

With increased consumer emphasis on health in the USA, restaurants are responding to these trends with nutritious options and variety in portion sizes. More than three-quarters of American adults (76 percent) say they are trying to eat more healthfully in restaurants now than they did two years ago. Close to the same percentage of teenagers (ages 12–17) say they try to eat nutritiously when dining out (73 percent). Eighty-seven percent of adults also say that there are more healthy options available at table service restaurants than there were two years ago. Eighty-three percent say the same about quick service establishments.

In the UK one in four children is obese, 65% of men are overweight or obese as are 56% of women. With obesity predicted to cause a decline in life expectancy of 5 years by 2050, the government has stepped in by introducing "the traffic light" system. Manufacturers now need to indicate the levels of fat, sugars and salt clearly on the front of the pack to help inform consumers. Chefs and food programmes are now influencing the switch to healthy eating by demonstrating healthier alternatives of traditional meals. 52 million viewings of television food programmes are watched in a single week in the UK. Our UK customers all have Healthier sub brands which demand lower fat salt and sugar than standard alternatives. Meeting these demands is a worthwhile challenge!

In Germany the mainstream trend towards towards healthier living and wholesome foods continues. Healthly living is all the rage, it seems. Stronger demands for high-value products create perspectives for a quality oriented further development of the product assortment. Trendy innovations, extraordinary ingredients and low-fat products, targeted for single and small households are now the focus. The assortment of Pickenpack's products aimed at fulfilling these needs is enlarged by new forms of presentation of shaped fillet products, e.g. tails, centre cuts and loins as an alternative to the well-known natural products. The first products will be available to consumers in the beginning of 2008. In view of the quota reductions for some of the main raw material species used in industrial processing, the aquaculture segment in line with ecological standards is steadily gaining in importance and will assuredly play an important role in 2008.

Consumer trends in the US

Americans today are hungry for new experiences, easy-access solutions and variety, and this will be reflected in restaurant services and on menus in the coming years. Dining out is not reserved for special occasions anymore, but plays an essential role in how Americans live every day. Consumers want help to fit quality meals into their busy schedules, and require a lot of variety when doing so. They expect restaurants to make available a variety of healthy options and exciting flavours on menus, and they want to place their orders quickly and easily whether dining in the restaurant, enjoying their food at home, or eating on-the-go. In addition, restaurant-goers want to be in control of their experiences – from customizing menus items to fit their preferred tastes and diets, to using self-activated ordering and payment systems – to get the most out of each restaurant occasion.

Along with the healthy eating trend, three other key consumer trends now dominate the US market. Going Green, a large societal trend, is becoming a factor in restaurants. A smaller proportion of restaurants are taking its eco-commitment to menus with organics and sustainable seafood and meats. More than six out of ten (62 percent) say they are likely to choose a restaurant based on how environmentally friendly it is. Food to go operators are also delivering more choice to their customers when it comes to takeout, curb-side pickup, drive-thru, catering and delivery options, and guests welcome these options. For example, 47 percent of adult say they would use curb side takeout offered by their favourite table service restaurant, and 54 percent say they would use delivery if offered. Ordering Options is also a growing trend as consumers are seeking more options in placing orders, including online, by fax or via cell phone. In restaurant dining rooms, self-ordering and payment systems draw consumer attention. While only a small percentage of restaurants currently offer it, 44 percent of consumers say they would utilize electronic payment systems at the table. In quick service restaurants, 57 percent of consumers who have not used a self-serve ordering terminal say they would if it was offered.

As American adults buy a meal or a snack from a restaurant 5.8 times per week on average, and spend 48 percent of their food budget on food away from home ($1,978 per person annually), restaurants will continually keep their fingers on the pulse of consumer trends. Restaurant industry sales are expected to reach a record $558 billion in 2008 – a 4.4 percent increase over 2007 sales. The industry is heading into 2008 as an economic powerhouse and an essential part of Americans' lifestyle in every sense of the word.

Products

Primary processing

Primary processing determines product quality, whether it takes place in land-based plants or aboard freezer vessels. Further processing must depend on primary quality. This fact has always been recognised by Icelandic Group whose specialists have guided processing plants and provided product and processing specifications in line with market requirements. "Cool, swift and adept" may well be the defining words for processing in all companies working worldwide for Icelandic Group.

In recent years Icelandic Group has built up its own processing facilities in China and Thailand, focusing on the re-processing of whole frozen products from the North Pacific and the North Atlantic areas. Fish processing in Asia is increasing rapidly, with expertise from Icelandic Group playing a significant part in this development. Product specifications are issued by the Group and are required in all areas of processing.

Frozen and fresh primary products, such as whole fillets and fillet portions, are marketed directly in food service and at retail, or they may be further processed into value-added convenience products for use in all major markets.

Whatever the channels for primary products, there are no exceptions to the quality and safety standards of Icelandic Group.

Value-added production

Icelandic Group offers a very extensive range of products based on a wide variety of fish, shrimp and shellfish. Value addition often involves the breading or battering of fish, but it also means the preparation of whole ready meals and other convenience products.

Icelandic USA focuses on frozen, value-added products for the food service market. Convenience and product quality are key concepts among chefs in restaurants and catering establishments, and the Group's brands are very well known.

Coldwater UK processes frozen and chilled convenience products, largely under private (customer) labels for the retail market. The chilled value-added seafood market is developing especially well in the UK.

Pickenpack Hussmann & Hahn and Pickenpack Gelmer chiefly produce shaped and coated frozen products for the retail market but also various products for the food service market. Products are sold under the Group's brands but mainly under private labels of customers.

Wide selection of seafood

Icelandic Group offers a wide selection of seafood products from a large number of species, such as all major whitefish species, shrimp and other crustaceans, cephalopods and other molluscs. The processing of these products, as well as whether they are sold fresh or frozen, depends on the market and customer demands.

In the food service sector, Icelandic Group focuses on frozen products sold to professional chefs in restaurants and catering establishments that recognise the quality of frozen fish products and appreciate the convenience of being able to use them as needed. In this sector Icelandic Group has emphasised its principal brand, ICELANDIC. The brand has an extremely strong position in the United States, on the basis of its quality image and performance for over 50 years. In recent years the brand has also achieved significant footholds in other markets. Samband of Iceland is another principal brand of the Group, well known in general distribution in the US.

Icelandic Group entered the marked for fresh or chilled seafood in 2002. Since then the Group has expanded in this field within the United Kingdom where Seachill is constantly increasing their production of fresh fillets and portions, and Coldwater is now emphasising the development of ready meals. In 2006 Icelandic Group entered the salt fish markets which marks a new era for Icelandic Group.

During 2007 Icelandic Group acquired 51% share in farming and processing company in China with Tilapia as the main product. Currently, the company is producing 8 thousand tons per year and its capacity is forecasted to double in the next 12 months. Tilapia is a whitefish species which has increased its market share significantly in the last few years, gaining shares from more expensive species like Cod. Tilapia is the second largest farmed species in the world with over 2 million tons produced in 2006. Tilapia is number five on the list of consumed species in the US with Cod at number eight. Consumption is expected to show continued growth. This acquisition is part of Icelandic Group's strategy of strengthening its sourcing and production capabilities.

Markets and customers

Icelandic Group subsidiaries are not only active in sales on their domestic markets but also in neighbouring countries. The value-added processing companies are in Denmark, Germany, France, United Kingdom and the United States, while the marketing and sales companies are in France, Japan, Spain, South Korea, the United Kingdom and the United States. Extensive primary processing takes place in China and Thailand as well as in Iceland with sales to other concerns in the Group.

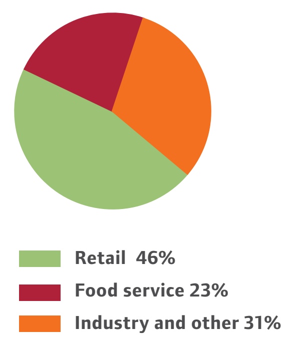
Icelandic Group is active in sales to both the retail and food service sectors. In 2007 46% of sales were destined for retail chains where the Group sells primarily under private label. In the UK and Germany the bulk of the Group's business is based on production and sales for retail chains. Other Icelandic Group companies also provide various products for retail. Among significant customers are Tesco, Marks & Spencer, Carrefour, Wal-Mart/ASDA, Morrisons, Aldi, Rewe, Netto and Kaufland.

Food service accounted for 23% of all sales in 2007. Distribution companies of all sizes are in general the main customers. They then resell or distribute the product to restaurants, canteens and other food operators. In food services Icelandic Group has emphasised the ICELANDIC brand. In the United States the brand has an extremely strong position which has been recognised for over 50 years for its quality image and performance. It has also gained a firm foothold in other Icelandic Group markets. Another principal brand in the Group's general distribution in the US is Samband of Iceland®.

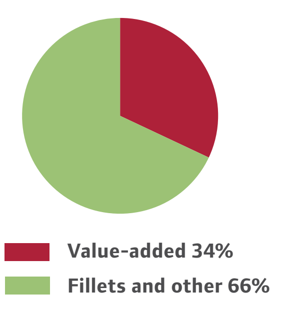
Sales to industrial customers, such as other food processors or large wholesalers of seafood make up the third category. Sales to this group amounted to 31% of all sales in 2007.

In 2007 the main market regions of Icelandic Group were the Continental Europe which accounted to 32% of the Group's total turnover, the UK 24%, Asia 24% and the US 20%.

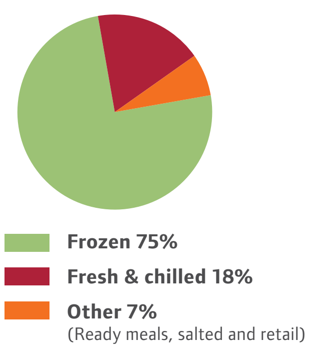
Group sales are quite dispersed by geographical regions and customer type. Some of the companies also have a few very large customers that they depend on at the same time as the customers depend on the constant deliveries from its supplier.



Retail 46%
Food service 23%
Industry and other 31%



Value-added 34%
Fillets and other 66%



Frozen 75%
Fresh & chilled 18%
Other 7%
(Ready meals, salted and retail)

Product development

Icelandic Group endeavours to maintain and strengthen its position as a trusted partner by making every effort to ensure that its products and services fulfil customer expectations.

As a food producer the company heavily emphasises product quality. Icelandic Group defines itself as a leader in the seafood business regarding quality of products and services expected in the markets. The market constantly demands products that are innovative, of consistent high quality and they must be convenient. At the same time, there is an increasing emphasis on information about the origin of the seafood. Icelandic Group's employees have knowledge spanning the entire spectrum from fishing and basic processing to further processing of finished products and ready-to-serve meals and their sale to customers. This makes Icelandic Group unique.

Markets differ

In the US, product development focuses chiefly on products sold under Icelandic Group's own trademarks to restaurants that cook in their kitchens. Market developments are monitored to assess what products are most suitable for customers. There are hundreds of types of products, and renewal is frequent. Sales to retail chains have been increasing in North America, and in these instances product development is carried out in partnership with the client.

In the UK, the principal emphasis is on the retail market. This means co-operation between the development and market divisions of the retailers, on the one hand, and Icelandic Group companies on the other. Groups of specialists in various fields meet and compare notes. There is extensive product development in chilled products, where the entire process is very rapid and the product lifetime short, making the need for innovation greater.

In Germany and in the processing plant in France, development centres on frozen products. The majority of production is sold under the retailers' own brands, although the group does use its own trademarks. Products are of various types, fish sticks and shaped products, adapted to market tastes. There is considerable product development, with major emphasis placed on consultation with customers.

Three main areas

In Asia, headed and gutted fish is processed into various products, usually fillets and fillet pieces. These products are suitable for both further processing and direct sale. Product development in this case involves achieving the highest consistent quality possible and also adapting products to customers' needs and maximising raw material utilisation.

Sales and marketing companies do not themselves manufacture products, but resell others' production according to the instructions of primary producers or special contractors. Product development in these companies aims at offering products suiting the relevant markets and customers.

Manufacturing companies receive seafood from primary processors, transform them and manufacture products ready to cook or serve. The Group's plants on both sides of the Atlantic produce goods which are breaded, dipped in batter, or combined with sauces, fillings and vegetables. The outcome can be anything from a raw product for restaurant kitchens to a complete meal, ready to serve.

Trademarks

For a long time Icelandic Group has emphasised its own trademark, ICELANDIC, in restaurant services on all markets. This is the Group's leading trademark. The brand has a very strong position in the US, where it has been developed over several decades. The trademark has also gained a foothold on the Group's other markets, such as in the UK, France, Spain, Germany and Japan. Another of the principal trademarks in general use in the US is SAMBAND OF ICELAND.

The trademark ICELANDIC represents consistent product quality, sales and service to customers. The trademark stands for a variety of seafood of the highest quality in each product class on the various markets. The trademark may represent products of varying origin but is only used for goods produced in accordance with Icelandic Group's quality and environmental standards. Icelandic Group has compiled its own quality standards for handling raw material, which it has its producers follow. It should be clear to the buyer what sort of products will be delivered when purchasing goods with the ICELANDIC trademark.

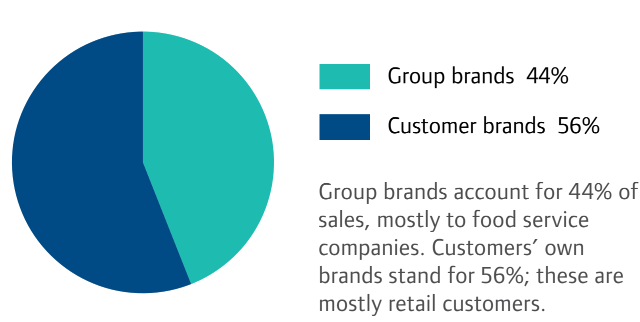
In addition to ICELANDIC, the trademark SEA STAR has been used for products complying with standards other than those applying to the ICELANDIC trademark. The MARKET BAY trademark is used for products sold at retail in the US which are not packaged as customers' in-house brands. The BLUE ICE trademark has been used on products manufactured in the Far East and on retail products in Scandinavia. These products go mainly to large buyers or producers.

ICELANDIC, SEA STAR and MARKET BAY are registered and protected trademarks in the US, while in Europe and elsewhere, the name Icelandic is not protected, although the design of the trademark is. The countries involved are: Austria, the Benelux countries, the UK, Denmark, Estonia, Finland, France, Greece, Ireland, Italy, Japan, China, South Korea, Latvia, Lithuania, Norway, Portugal, Poland, Spain, Switzerland, Sweden and Germany. SAMBAND OF ICELAND is a registered trademark in North America.

PICKENPACK is a registered trademark in the EU. Following the merger of Pickenpack and Hussmann & Hahn in 2004, the trademark PICKENPACK HUSSMANN & HAHN was also registered. The Pickenpack trademarks represent a long history and tradition of quality – ever since 1906. Pickenpack is well known in Europe for excellent product quality, first-class raw material and the ability to adapt its production to conform to the needs and tastes of individual markets. This has made Pickenpack one of the most important producers of retailers' in-house brands.

Jeka Fish's products are sold under the trademarks JEKA FISH and ATLANTIC COD. JEKA FISH is the leading trademark for salted cod on the Italian market, known for its consistent high quality, reliable delivery and competitive price. JEKA FISH is also known on salt fish markets as a leading trademark for fish produced from frozen-thawed raw materials.

On the retail market, Icelandic Group produces and sells its products primarily under the trademarks of the retail chains. In the UK and Germany, Icelandic Group bases its operations to a major extent on sales to retailers. On most other markets, Icelandic Group companies also provide retailers with a variety of products. Among its major retail customers are Tesco, M&S, Carrefour, WalMart/ASDA, Morrisons, Aldi, Rewe, Netto and Kaufland.



Group brands account for 44% of sales, mostly to food service companies. Customers' own brands stand for 56%; these are mostly retail customers.

Icelandic Europe

Icelandic Europe embraces the operations of all production and manufacturing companies in Europe with the exception of Fiskval.

Denmark

Icelandic Scandinavia ApS is a holding company covering the Danish operations that in 2007 consisted of Jeka Fish AS. Jeka Fish specialises in the production of salted products, mainly wet-salted Cod fillets, and the main markets are in Southern Europe, with Italy being the most important market.

Jeka Fish has been the single largest producer of wet-salted Cod fillets in the world for the last decade. The consumption of salted fish is based on an old tradition. The overall market size is rather stable. The majority of the products are still traditional, but they are slowly being adjusted to the demand for more convenience, which can be an opportunity to increase consumption. The markets are rather fragmented, and Jeka's customers are importers that add value to the fillets by further processing and/or distribution.

Jeka Fish also produces light salted IQF Cod fillets for the Southern European market, and chilled Cod products, mainly for Central and Northern Europe. This production is expected to grow in 2008.

Jeka Fish imports all raw materials for processing – the majority from the Pacific Ocean and the rest from the Barents Sea. In 2007 prices of raw material was record high. The raw material price increased faster than prices of products produced by Jeka Fish, resulting in lower margins. The situation has improved and is expected to remain stable in 2008.

Jeka Fish runs its operations in three factories. Only 40 metres separate two of them, but the third one is located 13 kilometers away. In August 2007, a process of combining all operations under one roof started. This will be finalised in April 2008, when a new building combining the two factories in Lemvig into one, will be ready. This is an important step for the future of Jeka Fish, as production and organisation of the company will become more efficient, improving the competitiveness of the company. After this process, the benefits of the merger with Atlantic Cod will be completed.

The results of the operations in 2007 were below budget. The main explanations are high raw material prices, which caused lower margins, too high raw material stocks, and re-organisation after merging with Atlantic Cod. The situation has stabilised, and the turnover of Jeka Fish is expected to grow slightly in 2008, with better operational results than in 2007.

Germany

The German market for frozen fish products in 2007 was marked by the acquisition of the ongoing consolidation in the German retail trade. These new situations lead to an even harder price competition combined with the ongoing scarcity of fish raw material and the tremendous increase in cost for energy, transport, packaging material and ingredients. In this very difficult market situation Pickenpack succeeded in keeping its position on the market.

Pickenpack – Hussmann & Hahn (Pickenpack H&H) is involved in the production and sale of deep-frozen fish and caviar. The main products are still fish fingers, both breaded and battered products and products with different toppings, where the market share is 25% in Germany.

Major investments in enlarging production capacity for the booming segment of filled products were undertaken in 2007.

Total production of finished goods in 2007 was about 65,000 tons, a bit more than in 2006, but less than planned. The main reason was the market situation of rocketing high raw material prices. Price for Alaska Pollock again increased by 10% and alternative raw material was hardly available. Price increases achieved with the retailers were no longer sufficient so that another price increase will be necessary for the beginning of 2008. Sales on the domestic market were exactly as planned. The food Service segment showed an increase of 4% in volume.

The export activities of Pickenpack H&H amounted to € 68 million, a share of turnover of about 31% of the entire company turnover. Compared to 2006, the export business showed an increase in turnover (€ 10 million), but a decrease in volume (3%).

Major decrease (about 11% in turnover) was seen on the UK market due to the fact that the French processing plant is seen as the bridge head to the British Isles. The strong Euro versus the British Pound also played an important role.

A positive development was seen on the Irish market where Pickenpack H&H succeeded in listing the complete Steam Fresh Concept range that launches in January 2008.

In France Pickenpack H&H sells to all the major retailers as well as to almost all discounters. In 2007 there was a 10% increase in turnover, with an increase in volume of about 8%. Necessary price increases were already achieved in 2007 and were continued, especially for Cod to show a positive effect in 2008.

The market for frozen fish products in the Netherlands was marked by an uncertainty of the retail trade caused by strong activities of environmental groups. In sharp contrast to new quota reductions, the end of 2007 showed a run on MSC-certified products pushed by the statement of several big retail chains to switch to MSC products completely by 2010. In the Netherlands Pickenpack H&H sales were lower than planned (9.9% in quantity).

In spite of the difficult market situation in Scandinavia Pickenpack H&H was not only able to keep all customers, but also achieved new listings and gained 2 new clients in Norway and Finland. Prices could be kept on a high level.

Due to the saturated market situation in the big cities the market for frozen fish products from Pickenpack H&H in Russia remained on last year's level. Rural regions are missing purchasing power.

Due to the fact that Russian authorities delayed the issue of new import licenses deliveries could only be shipped out for a reduced period of 10 months. The missing quantities could not be caught up. Additional competition due to enlargement of own Russian productions and growing demand for cheap products.

The market in Italy developed positively with an increase of 8% in volume and 22% in turnover compared to 2006. Despite strong competition Pickenpack H&H was able to achieve new listing with existing customers. The result is a growth in customer base by eleven.

At the end of 2007, due to rocketing raw material prices, Pickenpack H&H again succeeded in increasing sale prices. Due to the lack of fish material, high prices as well as higher costs of energy and packaging material, the company will be obliged to continue along that route in 2008.

France

Pickenpack Gelmer entered Icelandic Group in September 2006 and had its first full year with in the Group in 2007. Pickenpack Gelmer is one of the leaders on the French private label market. The market position of Icelandic Group is strong on the French market, with the combined force of Pickenpack Gelmer, Icelandic France and Pickenpack Hussmann & Hahn. The Company´s main market sectors in France are retail, including home service and freezer centres, and the food service market. In the beginning of 2007 Pickenpack Gelmer took over the production of the frozen coated business from Coldwater Seafood in the UK with its main retail customers in the British private label market. The location of the factory close to the English Channel gives a strategic advantage for deliveries into both the French and British markets. After the transfer around 30% of the turnover of Pickenpack Gelmer is originated in the UK, 35% in the French retail market, and 35 % in food service and freezer centers.

In 2007 the main focus was on increasing sales prices to compensate for increased raw material prices as well as on the transfer of the frozen coated business from Coldwater Seafood. A total of 7,000 tons of production were transferred from Coldwater to Pickenpack Gelmer. The start-up of the transferred production was finalised mid-year 2007. The Company has invested in new product lines to increase productivity and capacity. After the transfer from Coldwater the UK market has become an important market for Pickenpack Gelmer.

The focus in 2008 will be on further strengthening of productivity and increase in the efficiency of the plant. The sales team has to work on further acquisition to reach an utilisation of 25,000 tons of finished products. In line with ongoing price increases for raw material, oil, ingredients and packaging and quota reduction in the main species of raw material, further price increases are needed during the year.

United Kingdom

Coldwater Seafood

Coldwater started the year with significant transition and product transfers to complete. By the middle of June the majority of the frozen and coated business had been transferred to Pickenpack Gelmer in France.

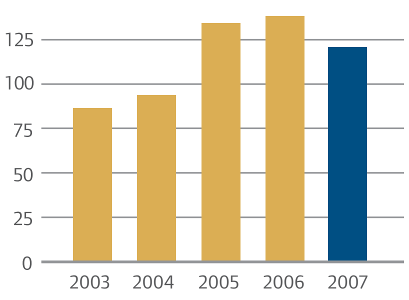
During the year, Coldwater launched new frozen meals business with its key UK retail accounts and grew the chilled business by 6%, slightly ahead of the market for chilled sales growth. The remaining frozen coated business did not keep pace with the market and declined by 6% in a market that grew 8%. Overall this poorer performance compared to the market was due to a conscious act on Coldwater's part to exit the lower return business and to focus on value added. This has now left Coldwater free to focus on its strategy of growth in value added ready meals and fish products.

Overall sales at Coldwater fell by 13% in 2007 compared to 2006. By adjusting the sales by the sales that were transferred to Pickenpack Gelmer the underlying rate of growth was about 6%.

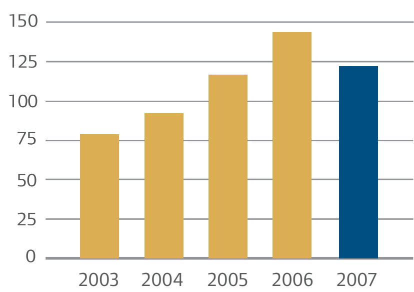
EBITDA improved in 2007 despite the transfer of the frozen coated business. The improvement has been achieved through improved margin with the main drivers being production efficiencies, product development and a move towards higher margin products.

The seafood market in 2007 was challenged with price increase of fish. This drove a definite shift from chilled to frozen products in the market. The customers and consumer conscience requires attention to be paid to the identification of new and different species and sourcing grounds to ensure that the overall sustainability of the raw material is delivered. In 2007 Coldwater introduced 7 new species to the UK market to ensure new options. It is likely that with current prices this trend will continue, hence the drive to increase the introduction of other species than the traditionally consumed Cod and Haddock.

Coldwater Seafood (UK)
- turnover in million GBP



Seachill - turnover in million GBP



Seachill

This year the value of the total retail chilled fish market has grown in value by 3%, but declined by 3% in volume. The main driver of this growth has been from the coated chilled fish sector. Seachill supply the natural fish sectors of the market which has seen higher raw material price pressure deflate the market by 13%. These higher raw material prices have reduced retail promotional activities as seen in previous years, and impacted the turnover and volume by 15%. This market change in volume has been effectively managed within the business, with Seachill still achieving an average weekly output above 300 tons per week of finished product. Since the end of 2006 the retail market has been driven by margin rather than volume; this will hopefully have a more even mix in 2008.

Icelandic Europe

Procurement and processing of Salmon is a major proportion of the business. Seachill again worked closely with the supply chain and secured contracts for a proportion of the purchases in 2007, offering stability of supply to their customers. The availability of Salmon was good in 2007 and at more favourable price than the previous year. Whilst frozen Chilean Salmon offers an alternative source to the UK market, recent disease issues question this source as an alternative to fresh Norwegian and Scottish.

White fish has been difficult with double-digit inflation on raw material prices. The impact of reduced quota's and sustainability has been at the forefront within this sector. Sustainability and public awareness has increased, putting further pressure on the supply sector. The world demand continues with year on year pressure on all sources fresh and frozen supplies.

New product development has recently concentrated on developing more raw material added value products for consumers, as shoppers want to be more involved in the cooking process. Development has risen in these areas with retailers developing whole ranges, which are merchandised together covering all proteins. With the pressure of reduced quotas and higher prices on key lines such as Cod and Haddock, this has enabled opportunities for new farmed whitefish species such as Tilapia and Pangasius fillets to reach the market.

Seachill continues to invest heavily in new technology delivering yield benefits in key areas, as well as updating technology on packaging and traceability of products.

Public awareness in 2007 and 2008 will see packaging waste, air miles, carbon footprint and climate change much higher up the consumer agenda and are reflected in the retailer requirements from the supply base.

Icelandic USA

Icelandic USA covers all operations in North America. The CEO of Icelandic USA is Aevar Agnarsson.

Groundfish operations are consolidated into the newer, state of the art production facility in Newport News, Virginia. Production at the Newport News facility is at two shifts with extra capacity available in the existing structure going forward.

The business in North America was further streamlined and focused in 2007 with the sale of the Ocean to Ocean USA division. The marketplace in the commodity shrimp arena has become increasingly difficult in recent years and the decision was made to sell off the remaining inventory in the US to existing customers and to two larger players in the shrimp marketplace. The exit of the Ocean to Ocean USA business proceeded relatively smoothly and was accomplished by year end 2007.

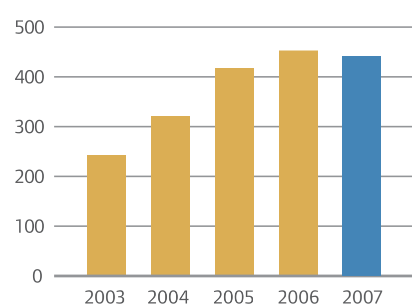
With Ocean to Ocean Canada, the decision was made at year end to exit that shrimp business as well. This sale which was closed at the end of February 2008 allows the North American operations to focus on its core competency which is valued added seafood and commodity Groundfish products.

Sales in Groundfish for 2007 finished at $366 million USD which was level with 2006. With prices of fish continuing at record levels, achieving higher sales in 2007 was difficult as this seafood sector competes directly with the lower priced proteins such as poultry, red meat, and ham. Also, consumer confidence in the US is down with the softness in the economy, sub prime mortgage headlines, and higher energy costs. These negative factors inhibited the Groundfish goal of increasing sales in 2007 as the customer base is largely dependent on seafood consumed away from the home.

2008 will see the North American operations focused on gaining new sales despite some of the negative headline news in the US. Key areas of focus are new products, growing new business slots with existing customers, and a consolidation of sales partners with a focus on delivering an ever strong message to our current and potential new customer base. Seafood consumption in the USA continues to increase moderately since 2001 with per capita consumption to reach a projected 16.8 pounds per person in 2007 versus 14.8 pounds in 2001. Overall, Icelandic USA sells nine of the top ten species that are consumed in the USA. Tilapia is the fastest growing specie and Icelandic has direct control and access over farmed Tilapia operations in Asia. Tilapia sales grew 18% in 2007 and are poised for continued growth in the years ahead.

2008 is the first full year with all merger activities accomplished and non core business models have been exited. Icelandic USA is in a strong position, with a strong brand name, to move forward in the coming years as a leading company in its sector, providing value to its customers and shareholders.

Icelandic USA - turnover in million USD



Icelandic Asia

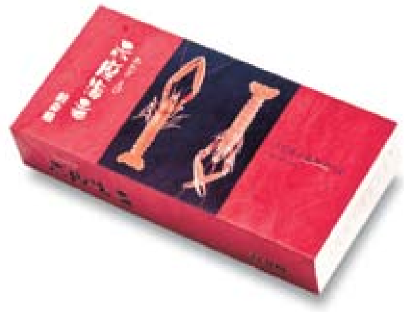
Icelandic Asia covers all operations in Asia except for Icelandic Japan which is a part of Icelandic Marketing. The CEO of Icelandic Asia is Ellert Vigfússon.

This past year was in many ways similar to the previous year, raw material increases early in the year but then the market stabilized for the second third of the year and then took of again towards the end of it. Continued price increase impacted the volumes Icelandic Asia companies dealt in. The turnover was maintained because of the price increases. We managed to push raw material increases more expeditiously into the finished product prices than in the previous year. We were therefore able to maintain a healthy margin throughout most of the year.

The markets in Asia were fairly stable in terms of species, and no drastic changes are expected. Due to the best part of Asian sales being headed and gutted raw material, the price increases went straight through to the customers. However, the company intentionally reduced its trading activities in Asia due to the low margins and high raw material prices. In terms of sales and margins Asia was in line with budgets.

In the beginning of 2007 Icelandic Group concluded the purchase of 51% share in an aquaculture farming and processing company based in Beihai in southern China. The ever increasing role aquaculture plays in the seafood industry today is a fact that we had to come to terms with and to get involved in. The company is in the final stages of completing the construction of a manufacturing complex where it can manufacture its own feed, process the livestock from its own cage farming operation and house its migrant employees. The company is in fact a totally vertically integrated farmer or fresh water fish, the only one of its kind in China.

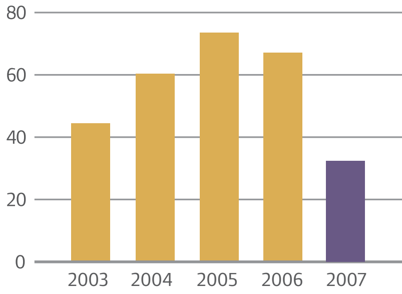
During the early part of last year Icelandic Asia companies decided to re-enter the UK market and regain business that was previously lost. The drive for increased business in the UK has exceeded expectations and is expected to continue Icelandic Asia's growth in that market in the year ahead of and regain previous sales margins. The business that has been built with our partners Andreasen Sales in the Scandinavian market has grown quite well this year and is fully expected to more than double next year.



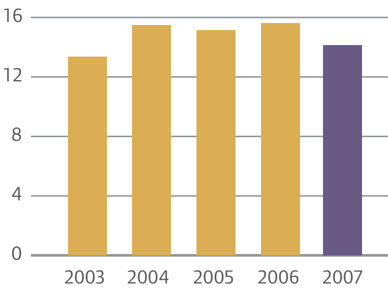
Icelandic Marketing

Icelandic Marketing consists of the trading and sourcing companies of Icelandic Group.

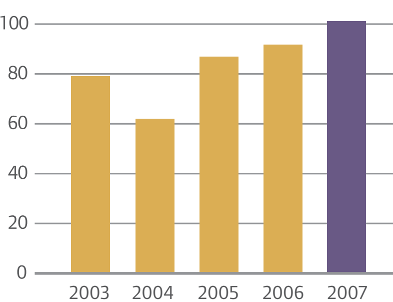
Icelandic France - turnover in million €



Icelandic Japan - turnover in billion JPY



Icelandic Iberica - turnover in million €



France

In 2007 all activities of Icelandic France were gathered in one place in Malesherbes site in Paris. Icelandic France supplies the French market with variety of species, such as Scallops, Cod, Monkfish and Hake to name a few. Icelandic France main customers are freeze centres, home service, wholesalers, retailers, manufactures and caterers. The largest part of the turnover and margin are from business with freeze centres and home service.

The main objective for Icelandic France in 2007 was to get control of the stocks and continue to reduce them to acceptable levels. The reductions of stocks have led to decrease of the company's debts and put it in a good position to move forward.

Japan

Icelandic Japan's main markets are Japan, China, South Korea and Taiwan. In general the market for seafood in Japan was quite dull in 2007. Marine products have been facing tougher competition from other protein sources, such as pork, beef and chicken, hence facing harsher competition for price increases. This, and the affect of consumer spending less on food, have and will continue to affect the consumption of marine products in Japan.

The Chinese market looks to be getting stronger for the domestic consumption of marine products. As consumers get richer they will be able to afford a wider range of products from world supplies, which increase the competition for products coming from the Atlantic. However, Icelandic Japan has already established a known brand in the market for its products and will continue to have a strong position in the Chinese market.

For the re-processing market 2007 has been tough. Raw material prices for both Atlantic and Pacific Cod are at record highs and factories are not able to purchase as much as wanted. Therefore they have been turning to other species such as Haddock and Saithe, which has also seen some price increases, although not as sever as the Cod prices. With more and better catches in 2008, prices are expected to lower, which will hopefully mean easier access for raw material for re-processors.

The Japanese market for food will continue to be very competitive; the consumers want to spend less of their income on food. Icelandic Japan is ready to meet increased competition. It has a long-standing reputation, and it offers both popular species and good service to its customers.

Marinus in Iceland works in close cooperation with Icelandic Japan by taking care of sourcing activities of many species for its sister company. It specializes in the North Atlantic species intended for the Asian market, such as Redfish, Greenland Halibut and Capelin, but it also gets involved in totally different species: Nile Perch from Africa and Salmon from South America. The company had a good year in line with budget.

Spain

The year 2007 was a good year for Icelandic Iberica even though the economic environment was difficult. The fourth quarter of 2007 was especially difficult with sales reduction up to 10% in some markets.

In Icelandic Iberica owns two subsidiaries, Ecomsa and Sirius.

Ecomsa is located in Malaga and operates in the region of Andalusia, which is the most populated region in Spain. Ecomsa specialises in seafood distribution to hotels and restaurants in the tourist area of Costa del Sol. In Malaga the company has its central cold store and packing facilities. The main products of Ecomsa are white fish, such as Kingklip and Cod, Cephalopods, such as Squid and Cuttlefish, and Crustaceans, such as warm-water Shrimp, Lobster and Scampi.

Sirius was acquired by Icelandic Iberica in the beginning of 2007. Sirius is a marketing company in Iceland that specialises in salted products and offers a variety of the best available traditional salted fish produced in Iceland. Sirius's main market is Portugal although sales to Spain and Italy are also significant.

Icelandic Iberica's sales grew by 10% from previous year, mainly due to the acquisition of Sirius.

During 2007 Icelandic Iberica maintained an unquestionable leadership in lightly salted Cod products from Iceland for the seafood service channel in Spain, marketed under the ICELANDIC brand synonymous with quality and reliability. Market position in Italy, Portugal, Greece and the rest of the Mediterranean was also kept.

Icelandic Iberica consolidated in the year a complete product portfolio complementing its offer of North Atlantic product ranges as Cod, Saithe and Redfish with other species sourced from South America, such as warm water Shrimps and Salmon, from Asia Pangasius, Squid and Cuttlefish, from New Zealand with green shell Mussels and Africa with Nile Perch among others.

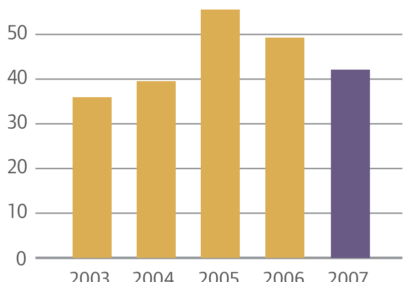
United Kingdom

Icelandic UK's results for 2007 were in line with budget despite difficult trading conditions. Raw material prices of its core lines increased by around 20% year on year as a result of lower supplies.

These price increases lead to a fall in demand causing reduced turnover against both budget and 2006. Margins however, were still maintained by adapting the business, for example turning to cheaper species such as Alaskan Pollock as an alternative to Cod and Haddock, which are traditionally the core species for the UK market.

2007 was Icelandic UK's first full year supplying value added products, the start up of which was much slower than anticipated due the restructuring of the Group's production companies. After the slow start, Icelandic UK will continue to develop its value added products and hope to see further growth for Icelandic UK in this market for 2008.

Price increases seem to be slowing and high increases are not expected in 2008. This should instill confidence back in the market and see demand return. Icelandic UK enters 2008 supported by a strong, stable sales team and looks forward to a prosperous year ahead.



Financial review

Accounting policies
The consolidated financial statements for the year ended 31 December 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Icelandic disclosure requirements for listed companies. The consolidated financial statements consist of Icelandic Group hf. and its subsidiaries, together referred to as "Group".

Sales
Sales in 2007 amounted to € 1,384 million which is a decrease of 5.9% compared with 2006 sales of € 1,471 million. Most of the Group's income originates from production companies, 70.4% compared to 73.8% in 2006. Income from the sales and marketing companies constituted 29.4% compared to 24.3% in 2006. Income from holding and service companies constituted 0.3% compared to 1.9% in 2006.

Operating expenses
Loss before financial items totaled € 2.1 million compared to profit of € 5.5 million in the previous year. EBITDA as a proportion of sales was 2.0% compared to 2.5% in 2006. € 30.4 million was charged as depreciation, amortization and impairment loss during the year, as compared to € 31.5 million in 2006. Impairment loss amounted to € 11.8 million.

Share of profit of equity accounted investees
Share of loss of equity accounted investees amounted to € 0.4 million compared with profit of € 0.7 million in 2006.

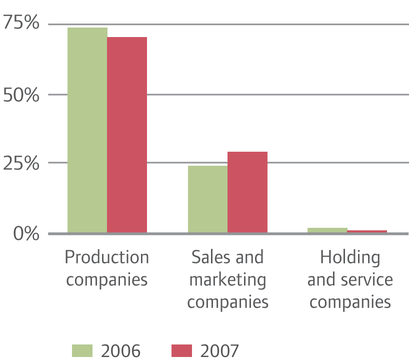
Financial expenses
Financial expenses increased by 18.7%, totaling € 28.5 million, as opposed to € 24.0 million in 2006. € 15.6 million was recognized as income due to fair value changes on shares in other companies compared to € 2.3 million in 2006. Currency loss amounted to € 7.6 million compared with currency gain € 5.9 million in 2006. Gains from the sale of shares in subsidiaries amounted to € 1.1 million.

Income tax
Income tax income during the year 2007 amounted to € 1.2 million compared to 7.1 million in 2006. The income tax is lower than could be expected because income tax is not calculated from some subsidiaries taxable losses.

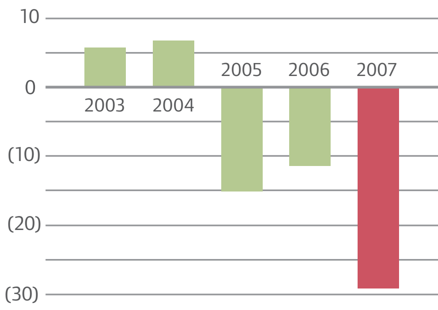
Results for the year
Loss for the year totaled € 29.3 million, compared to a loss of € 11.4 million in 2006. EBITDA totaled € 28.3 million, compared to € 36.9 million in 2006.

Sales by geographical location

Sales by market segments



Net profit (loss) in million €



EBITDA in million €

Icelandic USA subsidiary, Ocean to Ocean, has sold all inventories and trademarks both in the USA and Canada. The sale allows Icelandic USA to focus on its core competency which is value added seafood and commodity Groundfish products.

The transfer of production of frozen products has been completed from Coldwater Seafood UK in Grimsby to Pickenpack Gelmer, France. Coldwater now specializes in the manufacture of chilled and frozen ready meals.

Earnings per share

Basic loss per share amounted to € 0.0103 compared to a loss per share amounting to € 0.0040 in 2006.

Assets

The Group's total assets amounted to € 796.1 at year end 2007 compared with € 906.8 at year end 2006.

Property, plant and equipment totaled € 118.4 million at year end compared to € 124.4 million.

Intangible assets totaled € 227.2 million at year end compared to € 256.1 million. According to International Financial Reporting Standards (IFRS), goodwill should be tested at least annually for impairment. Goodwill amounting to € 11.4 million and business relationships amounting to € 0.4 million did not pass impairment tests. Therefore € 11.8 million is charged to the income statement as impairment losses.

Current assets totaled € 429.9 million. Of that total, inventories totaled € 242.5 million, as opposed to € 299.2 million at the beginning of the year, decreasing by 19% during the year. Current ratio was 0.92 compared to 0.99 in 2006.

Liabilities

Total liabilities amounted to € 663.7 million at the end of 2007, compared to € 730.5 million in the beginning of the year. Net liabilities (total liabilities less current assets) amounted to € 233.8 million, in comparison with € 231.0 million at the beginning of the year. Interest-bearing borrowings totaled € 514.5 million at year-end, but € 562.2 million at the beginning of the year. At year-end, 48% of the interest-bearing borrowings were in EUR, 31% in pounds sterling, 7% in US dollars and 14% in other currencies.

Equity

At the end of 2007, equity amounted to € 132.3 million, compared to € 176.2 million at the beginning of the year. The equity ratio was 16.6% at the end of 2007, but 19.4% at the beginning of the year. The number of shares at the end of the year 2007 numbered 2,893 million. The market value of the company at year-end 2007 amounted to € 164.5 million compared to € 233.1 million in 2006. Share prices of Icelandic Group decreased by 32% during the year 2007.

Statement of Cash Flow

Cash from operations before taxes and interest payments totaled € 57.2 million, as opposed to € 14.7 million used in the previous year. After payment of interest and income tax, cash used in operations totaled € 23.8 million, while the previous year used a total of € 42.8 million of net cash to operations. Net cash from investment activities totaled € 12.2 million. Net cash used in financing activities totaled € 27.2 million. Cash and cash equivalents at the end of the year totaled € 28.2 million.

Changes within the Group

On 1 January 2007 the Group purchased all shares in Sirius ehf. for € 0.4 million. The company buys and sells salted fish.

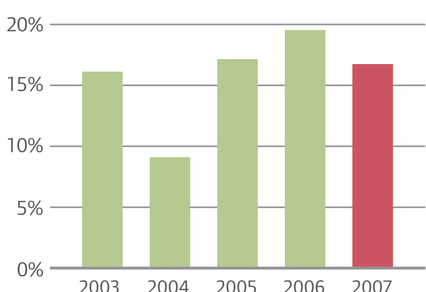
In February the Group acquired 51% of the shares in Beihai Beilian Foods Industry Co. Ltd. China, tilapia farming and processing company for € 2.0 million.

VGI ehf. was sold in April 2007. The sales price amounted to € 2.4 million.

Operational prospects

The year 2007 was an extremely difficult year for Icelandic Group. It is estimated that the Group will reach a balance in Q3 2008 and show a profit in the year 2009. The Group will now focus on operations and leveraged acquisitions are in the past. One of Icelandic Group's main tasks is to react to changed operations of the Group, which are characterized by the increased raw material prices along with increased financial costs with a decrease in other operational costs and price increase of products.

Equity ratio



Return on equity

Corporate governance

Icelandic Group hf. is controlled by shareholders' meetings, the Company's Board of Directors, its CEO and the Executive Board. Final authority in all Company dealings, within the limits set by its Articles of Association and national law rests with a duly constituted shareholders' meeting.

Emphasising good governance

The Board of Directors of Icelandic Group emphasises good corporate governance, as outlined in the Guidelines on Corporate Governance issued by the OMX Nordic Exchange in Iceland, the Icelandic Chamber of Commerce and the Confederation of Icelandic Employers. The Board has adopted internal rules defining the respective tasks and authority of the Board and of the CEO. They include rules on meeting procedure, on the eligibility of Board members to participate in dealing with specific issues, on confidentiality, the disclosure obligations of the CEO towards the Board, etc. The Board's rules make specific reference to regulations on insider trading and the treatment of insider information, as provided for in the Act on Securities Transactions, Guidelines of the Financial Supervisory Authority and the company's internal rules. The Board's rules also contain detailed provisions on information disclosure to the Board cf. Section 2.3 in the 2nd edition of the Guidelines on Corporate Governance issued by the OMX Nordic Exchange in Iceland, the Iceland Chamber of Commerce and the Confederation of Icelandic Employers.

Board of Directors

The Company is controlled by a five-member Board of Directors, elected each year at the Company's Annual General Meeting. The Board elects a Chairman and Vice Chairman and divides responsibility for other tasks between members as deemed necessary. The Board has supreme authority in the Company's affairs between shareholders' meetings, setting the Company's operating objectives with its interests and those of its shareholders in mind, in accordance with the Company's purpose. The Board engages the CEO, determines his/her terms of employment and provides a formal statement of his/her duties. Björgólfur Jóhannsson resigned his position as the CEO of Icelandic Group in December 2007 and left Icelandic Group in January 2008. From January 2008 until early February the Chairman of the Board of Icelandic Group fulfilled the CEO´s responsibilities. In early February the Board of Icelandic Group assigned Finnbogi A. Baldvinsson as the CEO of Icelandic Group.

A minority of the Directors is independent of the Company as specified in Section 2.6 of the 2nd edition of the Guidelines on Corporate Governance issued by ICEX, the Iceland Chamber of Commerce and the Confederation of Icelandic Employers. The Board of Directors of Icelandic Group has one subcommittee, remuneration committee.

In view of the above, corporate governance at Icelandic Group does not fully comply with the Guidelines on Corporate Governance.

Board meetings

Board meetings are generally called by the Chairman of the Board but can be convened at the request of any director or the CEO. It may be held by electronic communications or telephone. The meetings are presided over by the Chairman or alternatively the Vice Chairman. The proceedings and all decisions are recorded in the minutes and signed by those attending the meeting. In 2007 the Board of Directors convened 7 times.

Responsibilities of the Board

The Board is responsible for the overall management of the Group, and it ensures that the activities of the Group comply with good practice. The Board has adopted written operating rules specifying its responsibilities.

The Board's tasks and responsibilities include:

- Setting the Group's strategy and goals and approving budgets
- Engaging the Group's CEO and determining his/her salary
- Monitoring the work of the CEO
- Monitoring company performance against set goals
- Setting criteria in governance issues
- Overseeing risk management issues
- Approving financial statements of the Group

Responsibilities of the Chairman

The Company's Board set operating rules for itself in June 2003. Each year, at the conclusion of the AGM, the Board divides its tasks and elects a Chairman and Vice Chairman. The Chairman of the Board speaks and acts on the board's behalf regarding the Company's affairs. He also acts on the Board's behalf in respect of the CEO. The Chairman decides when Board meetings shall be held and directs these meetings or the Vice Chairman in the Chairman's absence. The Chairman sees to it that a book of minutes is kept about Board meetings and about the Board's decisions.

Corporate covernance

Remuneration of the Board of Directors

A new Board of Directors was elected at Icelandic Group's AGM on 23 March 2007. The same AGM approved a motion determining the monthly remuneration to each Director of ISK 100,000 for the coming operating year and double that amount for the Chairman. Alternates receive ISK 30,000 for each meeting they attend, up to a maximum of ISK 100,000 per month. No extraordinary transactions have taken place between Icelandic Group and its Directors. Directors hold no call or put options on the Company's shares, nor have they received loans or guarantees from the Company.

Executive Board

On 23 March 2007, Icelandic Group announced changes in Group structure. The main change was the division of the Group's overseas operations into four units, Icelandic Asia, Icelandic Europe, Icelandic USA and Icelandic Marketing. All service and investment operations are included in Icelandic Investment and Development. Finnbogi A. Baldvinsson holds the positions of CEO of Icelandic Group, Icelandic Europe, and Icelandic Marketing., Ellert Vigfússon as CEO of Icelandic Asia, Aevar Agnarsson as CEO of Icelandic USA. The Executive Board is responsible for the Group's daily operations and reports directly to the Board.

Tasks of the CEO

The CEO oversees day-to-day operations and ensures that they meet the strategy and policy set out by the Board. The CEO chairs the board of most subsidiaries and is responsible for their operations complying with the Group's policy, goals and standards. Decisions on major issues need the approval of the Board unless they are necessary to prevent the Group from incurring losses. The CEO provides the auditors with appropriate documents and information, as deemed necessary, and signs financial statements together with the Board.

Annual General Meeting

The Annual General Meeting will take place on 18 April 2007 at 16:00 GMT at Radison Saga Hotel.

Shareholder Meetings

Shareholder meetings are the highest authority in the Group's affairs. The main shareholder meeting is the Annual General Meeting, which is held once a year. All shareholders or their representatives have the right to attend shareholder meetings. The meetings are also open to the media and representatives of the OMX Nordic Exchange in Iceland.

The Annual General Meeting in 2007 was held on 23 March. The annual accounts for the year 2006 were approved, and it was resolved that no dividend should be paid to stockholders for the year 2006. The Board of Directors and auditors were elected, and the Board's remuneration was decided.

The results and other issues covered at shareholder meetings can be viewed on the Group's website: www.icelandic.is and on the OMX Nordic Exchange's website: www.omxgroup.com/nordicexchange.

Auditing

An independent auditor is appointed annually by the shareholders at the Annual General Meeting. The auditors of Icelandic Group hf. are KPMG Endurskodun hf., 590975-0449, Borgartún 27, Reykjavík, represented by Saemundur Valdimarsson and Alexander Edvardsson.

Remuneration paid to all Group's auditors in 2007 was € 1.4 million.

Compliance

Icelandic Group hf. complies with the Rules on Treatment of Insider Information and Insider Trading (The Rules) issued by the Financial Supervisory Authority. The Group employs a special Compliance Officer, who is directly responsible to the CEO. The Compliance Officer ensures that the Rules are adhered to, and that they are regularly distributed and presented within the Group.

The Compliance Officer updates and maintains the register of insiders, primary insiders and financially related parties. Primary insiders are members of the Board, the CEO, the members of the Executive Board, the CEO's of subsidiaries, the auditors and other nominated persons in legal, financial and consulting functions. A list of primary insiders can be viewed on the Financial Supervisory Authority's website: www.fme.is.

Insiders of Icelandic Group are not permitted to trade during defined closed periods. The closed period begins four weeks prior to an announced publication date for the next interim or annual statements and lasts until the statements have been published.

Risk management

The business environment, both operational and financial, encompasses a number of risks. The purpose of risk management is to determine which factors are influential to the Group's success.

Market Risk

Icelandic Group manufactures products both under its own brands, which are sold to restaurants, and products sold to retail chains under their private labels. The operations can thus be said to rest on two main pillars, which together reach most buyers on the market for seafood products. By selling to both these markets, the Group limits its market risk.

Market regions. Icelandic Group's largest markets in 2007 were the Continental Europe, which accounted for 32% of the Group's total turnover, the UK (24%), Asia (24%) and the UK (20%).

Main product classes. In line with its growth in recent years, Icelandic Group's product line has expanded substantially, and the risk attached to sales in individual product classes has decreased. In 2007 frozen fish comprised around 75% of the products sold, fresh and chilled fish around 18% and ready meals and salted fish around 7%.

Suppliers. Icelandic Group has grown rapidly in recent years. By broadening its product line at the same time, the Group has been able to offer its suppliers better service by purchasing most of the products they have to sell. Icelandic producers were traditionally at the core of the Group's purchasing, providing a majority of its supplies. In recent years, purchases from other countries have grown rapidly so that total purchases are now more evenly spread over the continents.

Inventories. Maintaining inventory is an integral part of the operations of the Group's sales and marketing companies. Ensuring that a varied selection of products is always available for delivery on short notice is an important aspect of their service. Management continually monitor the age and market value of inventories, which are regularly assessed at real value.

Raw material prices. From a long-term perspective, gradual fluctuations in prices on raw material markets have little effect on Icelandic Group's operations. By co-operating closely with parties on the retail and restaurant markets, prices for the company's products are adjusted to the market situation. Sudden price changes, on the other hand, can have a substantial impact on the performance of individual Group companies, especially if these companies have large inventories.

Quality assurance. Icelandic Group emphasises and demands that the products it sells fulfil the quality standards adopted by the Group. To enforce its quality and purchasing standards, Icelandic Group has an extensive database system which is accessible on the Internet to its subsidiaries and producers. Icelandic Group also does its utmost to ensure that its service to customers is exemplary. By so doing, the Group can maintain its strong position on its markets.

Risk management

Currency Risk

Currency risk is risk resulting from currency fluctuations, which can substantially affect Icelandic Group's operations. As a result, hedging currency risk is an important aspect of Icelandic Group's operations. The Group's strategy is to limit currency risk by ensuring that the currency composition of the assets and liabilities of individual Group companies reflects their cash flow from operations. Interest rates on part of the Group's long-term liabilities have been fixed by concluding swaps with credit institutions. Forward contracts are concluded to hedge currency risk arising from business in foreign currencies.

Management and Personnel Risk

Management risk is the risk involved in the management, organisation and expertise within the Group. Icelandic Group emphasises the administrative independence of its subsidiaries and divisions, decentralisation and clearly demarcated responsibility of managers of individual subsidiaries and divisions.

Icelandic Group has highly capable employees, with extensive knowledge of the Group's various operating sectors. The Group endeavours to hire suitably qualified and well-educated employees.

Icelandic's subsidiaries operate in 12 countries, all of which vary in terms of employment environment. In each country, Icelandic Group has at its disposal both expertise and experience of the national culture, labour market and relations with trade unions.

Legal Risk

Laws and regulations adopted by public authorities on fisheries management and customs duties can have a substantial impact on the Group's performance. Government regulations on fisheries management are intended to encourage rational exploitation of fish stocks and may thus limit allocated catch quotas, which make a decisive difference in acquiring raw material. Thus, a change in the allocation of catch quotas and limits on or elimination of their transfer could have a decisive impact on the operating premises for fisheries companies. Decisions by governments in individual countries to which Icelandic Group exports to levy protective duties can also substantially affect the company's performance.

Icelandic Group has to face the risk of dissatisfied customers and consumers bringing legal suit against the Group. The Group could also face litigation resulting from violations of health, pollution or environmental regulations, or other laws and regulations which may apply in each location where companies in the Group have their activities. The Group could also face litigation due to disputes with employees or their organisations, for instance, concerning unlawful dismissals, discrimination between employees, etc. It is difficult to evaluate these risk factors and their possible magnitude. An unfavourable verdict in connection with the above could have a considerably negative impact on the Icelandic Group's reputation and performance.

Icelandic Group and its subsidiaries are not involved in litigation which could have a substantial impact on the Group's performance, financial position or value. The Group is not faced with risk factors concerning patents, trademarks, production methods, business contracts or loan contracts.

Insurance

In addition to all mandatory insurance, Icelandic Group has transport insurance for the Group covering transport from primary producers to buyers or plants. Products being processed by primary producers are also insured. All goods in warehouses are insured. The usual insurance also covers employees and management. The manufacturing plants have all the normal insurance, as well as product liability insurance. Credit insurance is used on many markets, especially where the customers consist of small companies. The insurance will normally cover around 85-90% of the relevant receivables.

Corporate responsibility

Fishery management and sustainable fisheries

In laying down its principles for fishing and fishery management, Icelandic Group takes note of the FAO Code of Conduct for Responsible Fisheries (1995), and the international laws and regulations, which the Icelandic government has ratified.

Icelandic Group endeavours to base its business on the sale of products from stocks of fish, utilised in a sustainable and responsible manner, by means of a proper fishery management system. This shall be based on scientific assessment, and administered by governmental or inter-governmental bodies. Icelandic Group will collect data to the effect that the part of its business, which is based on international sources, also conforms to these considerations, while taking into account the different fishery management systems in many parts of the world.

Icelandic Group will take special care not to encourage production or sell products of endangered species. It will not sell products of protected species as specified by scientists, and by the legislation of nations, and the international organisations, to which Iceland is a party. This applies to fishing within the Icelandic EEZ, in international waters, and in areas under the jurisdiction of other nations.

It is clearly against Icelandic Group's environmental principles to trade with fish that is caught from illegal, unreported and unregulated fisheries, but Icelandic Group is fully aware that there may be sensitive raw materials involved in some areas of the world, for example there are not always clear quota allocations in place for all fish stocks exploited.

Wholesomeness of products

An important part of Icelandic Group's activities is to ensure that fish products sold by the company are wholesome, i.e., are of normal nutritional value and are free from pollution, caused by microbial or chemical contamination.

The wholesomeness of seafood products is best secured by means of a clean marine environment and good manufacturing practices, which include correct sanitation procedures in handling and processing and a thorough understanding of the factors causing contamination of the product.

Icelandic Group is on guard against circumstances threatening the purity of fishing areas and thereby the wholesomeness of the fish products and for this purpose keeps abreast of the work of Icelandic scientists and environmental specialists.

Icelandic Group emphasises that products sold by the company meet its uniform quality standards, as detailed in the company's product specifications. Icelandic Group's quality system also incorporates specifications for good manufacturing practices, which are intended to prevent contamination by foreign material, as well as chemical or microbial contamination.

All Icelandic producers for Icelandic Group have installed quality assurance systems, based on Hazards Analysis Critical Control Point (HACCP) principles.

Health and safety

It is said that most accidents occur at home. The home is outside the jurisdiction of Icelandic Group. When it comes to the working place, the Group strives to minimize occupational illness and injuries among the employees. It is in our interest as well as the employee's to work towards this goal. Lost working hours due to illness or injury will lead to higher costs, and the employee suffers.

In order to achieve its goals the Group companies monitor the number and origin of accidents to be able to prevent them from recurring in a similar way. An active health and safety policy is promoted throughout the organization, and the Group is committed to promoting and preserving safe working conditions for all employees and visitors for short or long periods.

Our customers

The Group plays an important role in the value chain to ensure that the chain does not break. It must keep every link at full strength. Icelandic Group takes part in fishing and primary production of seafood and it further manufactures products into the form required by restaurants or consumers. The Group represents a number of links in the value-added chain.

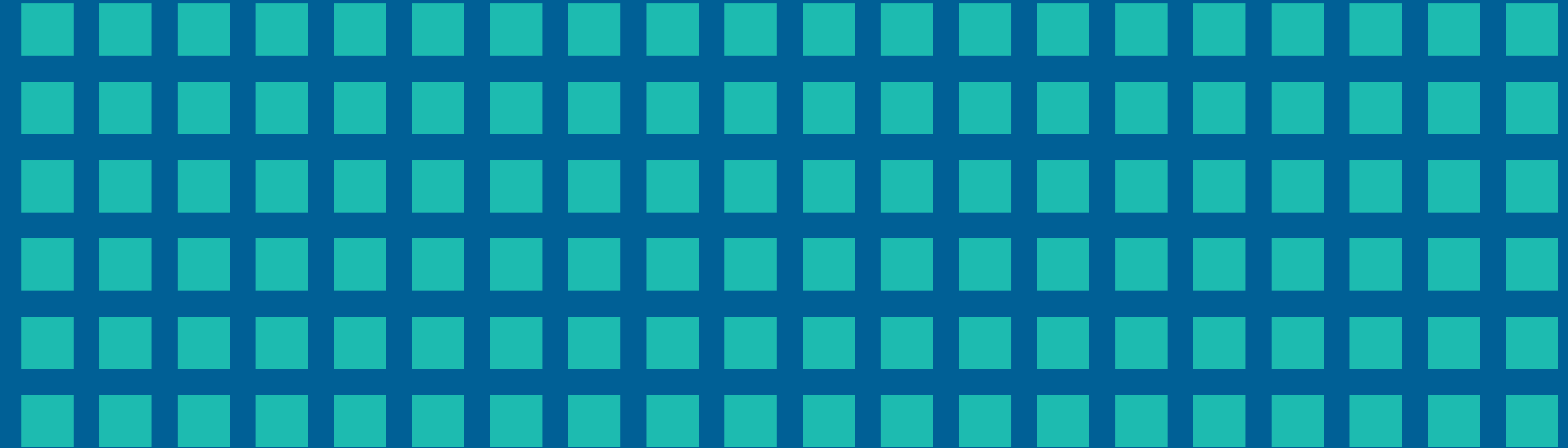
The Group has built up long-term relationships with its suppliers and its customers. Such relations are the core of a strong business model. The Group works with the suppliers to produce in accordance with the quality standards established by the Group to ensure that the customer and the consumer receive the wholesome and safe product that they expect and deserve.

Our shareholders

It is of importance to provide shareholders as well as potential investors with equal access to transparent information about corporate affairs and performance. The Group issues its financial statement on a quarterly basis and follows up with investor presentation in person and on its website. All events and news that could affect the valuation of the Group and its shares are announced to the stock exchange and published on the Group's website.

The Group issues an elaborate Annual Report, which is an important instrument of communicating and sharing information with the shareholders, investors and, in fact, all stakeholders. It gives a comprehensive overview of the many aspects of the business and is valuable in facilitating a thorough understanding of the business and the operations. A hard copy is available upon request, and the report can also be downloaded from the Group's website.

Financial Statements 2007



Endorsement by the Board of Directors and the CEO

Operations in 2008

Icelandic Group's consolidated financial statements for the year 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU. The financial statements comprise the consolidated financial statements of Icelandic Group hf. (the "Company") and its subsidiaries (the "Group"), which were 34 at 31 December 2007.

Icelandic Group hf. is a holding company for manufacturing and marketing companies specialising in seafood on international markets.

According to the income statement loss amounted to € 29.3 million for the year. The Group's income amounted to € 1,393.5 million for the year. According to the balance sheet total assets at year end amounted to € 796.1 million and equity amounted to € 132.3 million. The equity ratio of the Group was 16.6%.

The Board of Directors proposes that no dividend will be paid to shareholders. Reference is made to the financial statements regarding deployment of net loss and other changes in equity.

Share capital and Articles of Association

The share capital amounted to € 38.2 million at the end of the year, from which the Company held own shares in the amount of € 1.5 million. The share capital is divided into shares of ISK 1, each with equal rights within a single class of shares listed on the OMX Nordic Exhange Iceland. The Board of Directors has the right to increase the share capital until December 2008 by up to ISK 1,663,3 million with the sale of new shares. The Board of Directors decides the rules of sale at each time, i.e. price, payments, subscription period etc.

The Company´s Board of Directors comprise five members and two reserve members elected on the annual general meeting for a term of one year. Those persons willing to stand for election must give formal notice thereof to the Board of Directors at least five days before the annual general meeting. The Company´s Articles of Association may only be amended at a legitimate shareholders' meeting, provided that amendments and their main aspects are clearly stated in the invitation to the meeting. A resolution will only be valid if it is approved by at least 2/3 of votes cast and is approved by shareholders controlling at least 2/3 of the share capital represented at the shareholders' meeting.

Shareholders at the year end numbered 19,791, down from 21,122 at the beginning of the year. At the end of the year four shareholders held over 10% of outstanding shares, they are:

	Share
Fjárfestingarfélagið Grettir hf., Iceland	28.55%
FAB GmbH, Germany	20.38%
TM fé ehf., Iceland	13.13%
Landsbanki Luxembourg S.A., Luxembourg	12.92%

Magnús Þorsteinsson held 10.90% share at year-end, included in the share of Landsbanki Luxembourg S.A. above, which acts as custodian bank.

Further information on matters related to share capital is disclosed in note 27.

Statement by the Board of Directors and the CEO

The annual consolidated financial statements for the year ended 31 December 2007 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies.

According to our best knowledge it is our opinion that the annual consolidated financial statements give a true and fair view of the consolidated financial performance of the Company for the financial year 2007, its assets, liabilities and consolidated financial position as at 31 December 2007 and its consolidated cash flows for the financial year 2007.

Further, in our opinion the consolidated financial statements and the endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the annual consolidated financial statements of Icelandic Group hf. for the year 2007 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the consolidated financial statements will be approved at the annual general meeting of Icelandic Group hf.

Reykjavík, 13 March 2008.

Board of Directors:
Magnús Þorsteinsson
Aðalsteinn Helgason
Guðmundur P. Davíðsson
Stefán Magnússon
Steingrímur H. Pétursson

CEO:
Finnbogi A. Baldvinsson

Independent Auditors' Report

To the Board of Directors and Shareholders of Icelandic Group hf.

We have audited the accompanying consolidated financial statements of Icelandic Group hf. and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 misstatements, 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 principles 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 opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Icelandic Group hf. as at 31 December 2007, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 13 March 2008.

KPMG hf.

Sæmundur Valdimarsson
Alexander G. Eðvardsson

Consolidated Income Statement for the Year 2007

	Notes	2007	2006
Sales		1,384,374	1,471,316
Cost of goods sold		(1,248,547)	(1,316,606)
Gross profit		135,827	154,710
Other operating income	8	9,138	10,587
Operating expenses	9	(146,621)	(160,533)
Share of (loss) profit of equity accounted investees, net of income tax		(398)	700
Operating (loss) profit		(2,054)	5,464
Finance income		18,111	9,474
Finance expenses		(46,598)	(33,479)
Net finance costs	14	(28,487)	(24,005)
Loss before income tax		(30,541)	(18,541)
Income tax	15.16	1,204	7,118
Loss for the year		(29,337)	(11,423)
Attributable to:			
Equity holders of the Company		(29,798)	(11,373)
Minority interest		461	(50)
Loss for the year		(29,337)	(11,423)
Earnings per share:			
Basic and diluted loss per share (each share is 1 Icelandic króna)	32	(0.0103)	(0.0040)

The notes on pages 55 to 82 are integral part of these consolidated financial statements

All amounts are in thousands of euro

Consolidated Balance Sheet as at 31 December 2007

	Notes	2007	2006
Assets:			
Property, plant and equipment	17-21	118,421	124,403
Intangible assets	22	227,188	256,077
Investments in equity accounted investees	23	1,551	2,057
Other investments	24	7,409	14,998
Deferred tax assets	35	11,577	9,747
Total non-current assets		366,146	407,282
Inventories	25	242,532	299,157
Trade and other receivables	26	159,232	179,089
Cash and cash equivalents		28,153	21,222
Total current assets		429,917	499,468
Total assets		796,063	906,750
Equity:			
Share capital	27	36,661	36,912
Share premium	28	120,863	151,892
Reserves (deficit)	29-31	(27,563)	(12,564)
Total equity attributable to equity holders of the Company		129,961	176,240
Minority interest		2,369	1
Total equity		132,330	176,241
Liabilities:			
Loans and borrowings	33.34	187,996	219,752
Deferred income tax liability	35	7,446	8,430
Total non-current liabilities		195,442	228,182
Loans and borrowings	33.34	326,542	342,460
Trade and other payables	37	141,749	159,867
Total current liabilities		468,291	502.327
Total liabilities		663,733	730,509
Total equity and liabilities		796,063	906,750

The notes on pages 55 to 82 are integral part of these consolidated financial statements

All amounts are in thousands of euro

Consolidated Statement of Changes in Equity for the Year 2007

	Share capital	Share premium	Reserves (deficit)	Retained earnings	Minority interest	Total equity
2006						
Equity as at 1.1.2006	27,570	84,873	3,377	882	39	116,741
Currency fluctuations on subsidiaries not reporting in euros			(16,535)			(16,535)
Loss for the year				(11,373)	(50)	(11,423)
Total recognised income and expense			(16,535)	(11,373)	(50)	(27,958)
Transferred from share premium		(10,491)		10,491		0
Issued share capital	9,342	77,510				86,852
Own shares with put options not excercised			594			594
Minority interest, change					12	12
Equity as at 31.12.2006	36,912	151,892	(12,564)	0	1	176,241
2007						
Equity as at 1.1.2007	36,912	151,892	(12,564)	0	1	176,241
Currency fluctuations on subsidiaries not reporting in euros			(14,846)			(14,846)
Loss for the year				(29,798)	461	(29,337)
Total recognised income and expense			(14,846)	(29,798)	461	(44,183)
Transferred from share premium		(29,798)		29,798		0
Changes in fair value of cash flow hedges			(1,005)			(1,005)
Own shares with put options purchased	(251)	(1,231)	852			(630)
Minority interest, change					1,907	1,907
Equity as at 31.12.2007	36,661	120,863	(27,563)	0	2,369	132,330

The notes on pages 55 to 82 are integral part of these consolidated financial statements

All amounts are in thousands of euro

Consolidated Statement of Cash Flows for the Year 2007

	Notes	2007	2006
Cash flows from operating activities:			
Operating (loss) profit		(2,054)	5,464
Difference between operating (loss) profit and cash from operations:			
Gain on sale of assets		(2,214)	(5,682)
Depreciation, amortisation and impairment losses	12	30,393	31,482
Share of loss (profit) of equity accounted investees		398	(700)
Change in operating assets and liabilities	40	30,696	(45,304)
Cash generated from (used in) operations		57,219	(14,740)
Interest income received		1,765	1,565
Interest expenses paid		(33,805)	(26,888)
Income tax paid		(1,387)	(2.770)
Net cash generated from (used in) operating activities		23,792	(42,833)
Cash flows from investing activities:			
Investment in property, plant and equipment		(19,838)	(26,654)
Proceeds from sale of property, plant and equipment		6,551	6,649
Investment in intangible assets		(886)	(15)
Acquisition of subsidiaries, net of cash acquired	6	(958)	3,484
Proceeds from sale of subsidiaries, net of cash disposed of		2,213	557
Investment in shares in associated companies		0	(3,126)
Proceeds from sale of shares in associated companies		0	2,649
Proceeds from sale of other companies		24,705	183
Increase in bonds and other receivables		388	3,706
Net cash from (used in) investing activities		12,175	(12,567)
Cash flows from financing activities:			
Purchase of own shares		(1,696)	0
Minority share in capital stock		0	(12)
Long-term debt proceeds		12,463	68,445
Long-term debt repaid		(48,189)	(39,773)
Short-term debt proceeds		10,213	19,534
Net cash (used in) from financing activities		(27,209)	48,194
Increase (decrease) in Cash and Cash Equivalents		8,758	(7,206)
Cash and Cash Equivalents at the beginning of the year		21,222	29,883
Effect of Exchange Rate Fluctuations of Cash Held		(1,827)	(1,455)
Cash and Cash Equivalents at the end of the year		28,153	21,222
Investing and financing activities not affecting cash flows	42		

The notes on pages 55 to 82 are integral part of these consolidated financial statements

All amounts are in thousands of euro

Notes

1. Reporting entity

Icelandic Group hf. is a company domiciled in Borgartún 27, Reykjavík, Iceland. The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group´s interest in associates. The Group is involved in manufacturing and marketing of seafood in international markets (see note 6).

2. Basis of preparation

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by EU.

The financial statements were approved by the Board of Directors on 13 March 2008.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments at fair value though profit or loss are measured at fair value
- Derivative financial instruments are measured at fair value

The methods used to measure fair values are discussed further in note 4.

c. Functional and presentation currency

The consolidated financial statements are presented in euro, which is the Company´s functional currency. All financial information presented in euro has been rounded to the nearest thousand.

d. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is included in the following notes:

- Note 7 - business combinations
- Note 22 - measurement of the recoverable amounts of cash-generating units containing goodwill

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Certain comparative amounts have been reclassified to conform with the current year´s presentation.

a. Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) *Associates (equity accounted investees)*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. Foreign currency

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated at the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euro at exchange rates at the date of transactions.

Foreign currency differences arising on translation are recognised directly in equity. Since 1 January 2004, the Group´s date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

3. continued

c. Financial instruments

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expenses is discussed in note 3. m.

Held-to-maturity investments
If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Financial assets at fair value through profit or loss
An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchases and sale decisions based on their fair value in accordance with the Group´s documented risk management or investment strategy. Upon initial recognition, attributable translation costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other
Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) *Derivative financial instruments*

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges
Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

Economic hedges
Hedge accounting is not applied to derivative financial instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in profit or loss as part of foreign currency gains and losses.

(iii) *Share capital*

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of tax effects.

Repurchase of share capital (treasury shares)
When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from share premium.

3. c. continued

Put option agreements
When the Company sells treasury shares to its employees with put options, i.e. the right to sell the shares back to the Company at the purchase price, the equity is not increased. The equity will be increased if the put option is not exercised. In the financial statements the nominal value of share capital and share premium is increased, but other reserves decreased. Respectively a liability is recognised among other liabilities, amounting to the sales price of the shares in question.

Purchase of shares in the Company by employees
Some employees of the Group have received 29 million shares in the Company in 2005. When the shares were purchased the employees signed promissory notes which will expire if the employees will continue to work for the Company for five years. The cost is expensed during the same period.

(iv) *Dividends*
Dividends are recognised as a decrease in equity in the period in which they are approved by the Company's shareholders.

d. Property, plant and equipment

(i) *Recognition and measurement*
Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, pland and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit and loss.

(ii) *Subsequent costs*
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) *Depreciation*
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term or their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

	Useful lives
Buildings	10-50 years
Other fixed assets	5-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

e. Intangible assets

(i) *Goodwill*
Goodwill (negative goodwill) arises on the acquisition of subsidiaries and associates.

Acquisitions prior to 1 January 2004
The classification and accounting of business combinations that occurred prior to 1 January 2004 was not restated when preparing the Group's opening IFRS balance sheet as at 1 January 2004. In respect of acquisitions prior to this date, goodwill represents the amount recognised under the Group´s previous accounting framework, Icelandic GAAP.

3. e. continued

Acquisitions on or after 1 January 2004

For acquisitions on or after 1 January 2004, goodwill represents the excess of the cost of the acquisition over the Group´s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurements

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) *Other intangible assets*

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) *Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit and loss when incurred.

(iv) *Amortisation*

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

	Useful lives
Business relationship	5-20 years
Patents	3 years
Software	3 - 5 years

f. Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognised on the Group´s balance sheet. Investment property held under an operating lease is recognised on the Group´s balance sheet at its fair value.

g. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production and conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. The cost of inventory may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventory.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3. continued

h. Impairment

(i) *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effects on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

(ii) *Non financial assets*

The carrying amount of the Group´s non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets carrying amount does no exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i. Employee benefits

(i) *Defined contribution plans*

A defined benefit plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) *Share-based payment transactions*

The Company entered into an agreement with some of the Group's key personnel allowing them to buy shares in the Company from the Company at market price. The agreements state that the personnel involved have the right to sell the shares back to the Company. The fair value of the agreements has been calculated according to IFRS 2 and recognised among salary and salary-related expenses. The fair value is initially measured at grant date and spread over the period during which the employees earned the aforementioned right to sell.

3. continued

j. Provisions

A provision is recognised in the balance sheet if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) *Restructuring*
A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

k. Revenue

(i) *Goods sold*
Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenues is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs or the possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

(ii) *Other operating revenue*
Other operating revenue comprises the gain on the sale of property, plant and equipment, commissions and other revenue.

l. Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

m. Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group´s right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

n. Income tax
Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised

3. n. continued

for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

o. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

p. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group´s business and geographical segments. The Group´s primary format for segment reporting is based on business segments. The business segments are determined based on the Group´s management and internal reporting structure.

Inter-segment pricing is determined on an arm´s length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

q. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business segments. The Group has not yet determined the potential effect of IFRS 8 on the consolidated financial statements.
- IAS 1 *Presentation of Financial Statements* (revised in 2007) replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005. IAS 1 sets the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The main change in revised IAS 1 is a requirement to present all non-owner changes in equity either in a single statement of comprehensive income, or in an income statement plus in a statement of comprehensive income. Unlike under current IAS 1, it is not permitted to present components of comprehensive income in the

3. q. continued

statement of changes in equity. IAS 1 (revised in 2007), which becomes mandatory for the Group's 2009 financial statements if endorsed by the EU, is expected to impact the presentation of the Group's income statement and statement of changes in equity.

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construcition or production of qualifing assets as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group´s 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provision the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. It is not expected to have any impact on the consolidated financial statements.
- IFRIC 11 *IFRS 2 Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group´s 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.
- IFRIC 12 *Service Concession Arrangements* provides guidance on certain recognition and measurements issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group´s 2008 financial statements, is not expected to have any effect on the consolidated financial statements.
- IFRIC 13 *Customer Loyalty Programmes* adresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group´s 2009 financial statements, is not expected to have any impact on the consolidated financial statements.
- IFRIC 14 IAS 19 - *The Limit on a Defined Benefit Asset, Mimimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also adresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Group´s 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.
- The amendments to IFRS 2 *Share Based Payment – Vesting Conditions and Cancellations (January 2008)* clarify the definition of vesting conditions and the accounting treatment of cancellations. If endorsed by the EU, the amendments become mandatory for the Group's 2009 financial statements, with retrospective application required. The amendments are not expected to have any effect on the consolidated financial statements of the Group.
- IFRS 3 *Business Combinations* (revised in 2008) and amended *IAS 27 Consolidated and Separate Financial Statements* introduce changes to the accounting for business combinations and for non-controlling (minority) interest. The most significant changes from IFRS 3 (2004) and IAS 27 (2003) are the following:
  - IFRS 3 (2008) applies also to business combinations involving only mutual entities and to business combinations achieved by contract alone;
  - The definition of a business combination has been revised to focus on control;
  - The definition of a business has been amended;
  - Transaction costs incurred by the acquirer in connection with the business combination do not form part of the business combination transaction;
  - Acquisitions of additional non-controlling equity interests after the business combination are accounted for as equity transactions;
  - Disposals of equity interests while retaining control are accounted for as equity transactions.

  IFRS 3 (revised in 2008) and amended IAS 27 will become mandatory for the Group's 2010 financial statements, if endorsed by the EU. The carrying amounts of any assets and liabilities that arose under business combinations prior to the application of IFRS 3 (revised in 2008) are not adjusted while most of the amendments to IAS 27 must be applied retrospectively. The Group has not yet determined the potential effect of IFRS 3 and amended IAS 27 on the consolidated financial statements.

4. Determination of fair values

A number of the Group´s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) *Property, plant and equipment*
The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm´s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(ii) *Intangible assets*
The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived form the use and eventual sale of the assets.

(iii) *Inventories*
The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(iv) *Trade and other receivables*
The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(v) *Derivatives*
The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

(vi) *Non-derivative financial liabilities*
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(vii) *Share-based payment transactions*
The fair value of employee stock options is measured using a binomial lattice model. The fair value of share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, excercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

5. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group´s exposure to each of the above risks, the Group´s objectives, policies and processes for measuring and managing risk, and the Group´s management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group´s risk management framework. The Board has commended the CEO day to day developing and monitoring of the Group's risk management policies.

The Group´s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group´s activities. The Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a finanical instrument fails to meet its contractual obligations, and arises principally from the Group´s receivables from customers and investment securities.

Trade and other receivables

The Group´s exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group´s customer base, including the default risk of the industry in each country in which customer operate, has less of an influence on credit risk. Approximately 33% (2006: 33%) of the Group´s revenue is attributable to sales transactions with its five largest customers.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group´s standard payment and delivery terms and conditions are offered. The Group´s review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount. Customers that fail to meet the Group´s benchmark creditworthiness may transact with the Group only on a prepayment basis.

Most of the Group´s customers have been transacting with the Group for many years, and losses have occured infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss components that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Guarantees

The Group´s policy is to provide financial guarantees only to subsidiaries. At 31 December 2007 guarantees amounting to € 71.7 million were outstanding.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group´s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group´s reputation.

The Group uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains the following lines of credit amounting to € 17.0 million that can be drawn down to meet short-term financing needs.

5. continued

Market risk

Market risk is the risk that changes the market prices, such as foreign exchange rates and interest rates will affect the Group´s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the euro (€), but also the Sterling (GBP) and U.S. Dollars (USD). The currencies in which these transactions primarily are denominated are GBP, Swiss franc (CHF), Canadian dollar (CAD) and USD.

Interest rate risk

Most of the Group's borrowings are on a floating rate basis.

Other market price risk

Other market price risk is limited, as the Group's investments in held-to-maturity bonds and shares at fair value through profit or loss is immaterial part of the Group's operations.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interest. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group´s target is to achieve a return on capital of between 12.5 and 15.0 percent; in 2007 the return was negative by 16.7 percent (2006: negative by 5.7 percent). In comparison the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 7.2 percent (2006: 6.3 percent).

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices.

Segment Reporting

6. *Business segments*

The Group comprises the following main business segments:

- *Production:* Processing seafood into value added products.
- *Sales and marketing:* Sales and marketing of seafood without further processing.
- *Holding and servicing:* Parent company and companies that provide logistic and quality service to other group companies.

Geographical segments

The production and sales and marketing segments are managed on a worldwide basis, but operate in four principal geographical areas, USA, United Kingdom, Continental Europe and Asia.

In presenting information on the basis of geographical segments, segment revenue and segment assets are based on the geographical location of the assets.

6. continued

Business segments

2007	Production	Sales and marketing	Holding and servicing	Eliminations	Consolidated
Sales to external customers	974,091	406,323	3,960		1,384,374
Inter-segment sales	139,844	194,915	3,658	(338,417)	0
Total segment sales	1,113,935	601,238	7,618	(338,417)	1,384,374
Segment result	(8,567)	9,617	(2,706)		(1,656)
Net finance costs	(24,474)	(8,282)	4,269		(28,487)
Share of loss of equity accounted investees net of tax	0	0	(398)		(398)
(Loss) profit before income tax	(33,041)	1,335	1,165	0	(30,541)
Income tax	2,594	(961)	(429)		1,204
(Loss) profit for the year	(30,447)	374	736	0	(29,337)
Segment assets	768,447	132,444	97,053	(201,881)	796,063
Segment liabilities	536,787	154,474	173,199	(200,727)	663,733
Capital expenditure	20,048	646	30		20,724
Depreciation	15,659	1,114	121		16,894
Amortisation of intangible assets	1,560	124	7		1,691
Impairment losses on intangible assets	11,397	411	0		11,808

2006	Production	Sales and marketing	Holding and servicing	Eliminations	Consolidated
Sales to external customers	1,019,063	423,942	28,311	0	1,471,316
Inter-segment sales	128,784	205,618	7,021	(341,423)	0
Total segment sales	1,147,847	629,560	35,332	(341,423)	1,471,316
Segment result	(172)	4,306	630	0	4,764
Net finance costs	(20,981)	(5,670)	2,646	0	(24,005)
Share of profit of equity accounted investees net of tax	32	0	668	0	700
(Loss) profit before income tax	(21,121)	(1,364)	3,944	0	(18,541)
Income tax	7,396	(199)	(79)		7,118
(Loss) profit for the year	(13,725)	(1,563)	3,865	0	(11,423)
Segment assets	799,515	186,147	84,831	(163,743)	906,750
Segment liabilities	540,477	163,113	191,062	(164,143)	730,509
Capital expenditure	17,037	2,655	230	0	19,922
Depreciation	28,492	1,119	305	0	29,916
Amortisation of intangible assets	1,540	26	0	0	1,566

Geographical segments

2007	USA	UK	Continental Europe	Asia	Eliminations	Consolidated
Sales	341,161	417,875	554,897	408,858	(338,417)	1,384,374
Segment assets	183,174	195,852	468,112	150,806	(201,881)	796,063
Capital expenditure	1,459	6,092	9,840	3,333	0	20,724

2006	USA	UK	Continental Europe	Asia	Eliminations	Consolidated
Sales	369,304	487,006	552,573	403,856	(341,423)	1,471,316
Segment assets	149,643	195,578	658,472	90,739	(187,682)	906,750
Capital expenditure	4,684	6,557	6,941	1,740	0	19,922

Changes within the Group

7. On 1 January 2007 the Group purchased all shares in Sirius ehf. for € 0.4 million. The company buys and sells salted fish. In the year 2007 the company contributed a loss of € 0.2 million.

In February the Group acquired 51% of the shares in Beihai Beilian Foods Industry Co. Ltd. China, a tilipia farming and processing company for € 2.0 million. In the year 2007 the company contributed a profit of € 947 thousand. If the acquisition had occured on 1 January 2007, management estimates that consolidated revenues would have been € 1,402 thousand higher and consolidated profit for the period would have been € 242 thousand higher. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occured on 1 January 2007.

VGI ehf. was sold in April 2007. The sales price amounted to € 2.4 million. In the first three months of 2007 the company contributed a profit of € 0.4 million and revenues amounting to € 4.0 million.

The acquisition had the following effects on the Group´s assets and liabilities on acquisition date:

	Sirius ehf.	Beihai Beilian Foods Industry Co. Ltd.	VGI ehf.	Recognised values on acquisition
Property, plant and equipment	0	1,545	(35)	1,510
Intangible assets	0	325	(2,667)	(2,342)
Deferred tax assets	7	0	(8)	(1)
Inventories	350	3,678	(2,439)	1,589
Trade and other receivables	909	2,933	(2,609)	1,233
Cash and cash equivalents	114	1,343	(83)	1,374
Loans and borrowings	(1,364)	(4,991)	3,747	(2,608)
Trade and other payables	(29)	(991)	3,020	2,000
Net identifiable assets and liabilities	(13)	3,842	(1,074)	2,755
Minority interest	0	(1,883)	0	(1,883)
Business relationships on aquisition	398	43	0	441
(Cash aquired) / Cash disposed of	(114)	(1,343)	2,356	899
Acquisition of subsidiaries, net of cash acquired	271	659	1,282	2,212

Pre-acquisition carrying amounts were determined based on applicable IFRSs immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values (see note 4 for methods used in determining fair values).

Other income

8. Other income is specified as follows:

	2007	**2006**
Gain on sale of assets	2,199	3,528
Recognition of negative goodwill	0	1,789
Commission and other revenues	6,939	5,270
Other operating income, total	9,138	10,587

Operating expenses

9. Operating expenses are specified as follows:

Salaries and salary-related expenses	62,188	59,765
Other operating expenses	68,723	84,382
Depreciation of operating assets and amortisation	3,902	16,386
Impairment losses	11,808	0
Total operating expenses	146,621	160,533

10. Salaries and salary-related expenses are specified as follows:

	2007	2006
Salaries	130,756	139,753
Other salary-related expenses	10,946	21,141
Total salaries and salary-related expenses	141,702	160,894
Average number of employees (full year equivalents)	4,828	4,781
Positions with the Group at the end of the year	4,941	4,638

Salaries and salary-related expenses are allocated as follows on items in the income statement:

Cost of goods sold	79,514	101,129
Operating expenses	62,188	59,765
Total salaries and salary-related expenses	141,702	160,894

11. Salaries and fringe benefits paid to the Board of Directors and key management for their work for companies within the group, their put options and ownership in the Company are specified as follows:

Board of Directors:	Salaries and benefits	Number of shares at year-end, in million
Magnús Þorsteinsson, Chairman of the Board	27,5	421,3
Aðalsteinn Helgason, Board Member	13,7	
Baldur Örn Guðnason, Board Member	13,7	
Guðmundur P. Davíðsson, Board Member	10,6	
Steingrímur H. Pétursson, Board Member	12,0	
Gunnlaugur Sævar Gunnlaugsson, former Board Member	3,4	
Jón Kristjánsson, former Board Member	3,4	
Páll Magnússon, alternative Board Member	1,0	
Managing Directors:		
Finnbogi A. Baldvinsson, CEO	373,6	604,6
Ellert Vigfússon, CEO of Icelandic Asia	276,5	
Ævar Agnarsson, CEO of Icelandic USA	224,4	6,9
Björgólfur Jóhannsson, former CEO	367,3	

Included in the above list of shares held by management and directors are shares held by spouse and dependent children, as well as shares held by companies controlled by them.

Several employees of the Group have received 29 million shares in the Company. When the shares were purchased the employees signed promissory notes which will expire if the employees will continue to work for the Company for five years.

12. The Group's depreciation charge in the income statement is specified as follows:

	2007	**2006**
Depreciation of property, plant and equipment, see note 17	16,894	29,916
Amortisations of intangible assets, see note 22	1,691	1,566
Impairment of intangible assets, see note 22	11,808	0
Total	30,393	31,482

Depreciation is allocated as follows on operating items:

Cost of goods sold	15,710	15,096
Operating expenses	14,683	16,386
Total	30,393	31,482

Auditors' Fees

13. Auditors' fees are specified as follows:

Audit of financial statements	1,244	933
Review of interim financial statements	57	133
Other services	81	142
Total auditors' fees	1,382	1,208
Thereof remuneration to others than KPMG in Iceland	1,155	1,089

Net finance costs

14. Net finance costs are specified as follows:

Interest income	1,262	1,277
Dividend income	186	56
Fair value changes on shares in other companies	15,554	2,280
Gain on sale of shares	1,109	0
Net currency gain	0	5,861
Finance income, total	18,111	9,474
Interest expenses	(38,999)	(31,964)
Net currency loss	(7,599)	0
Loss on sale of shares	0	(1,515)
Finance expenses, total	(46,598)	(33,479)
Net finance costs	(28,487)	(24,005)

Income tax expense

15. Income tax recognised in the income statement are specified as follows:

Income tax payable for the year	583	3,912
Deferred income tax expense:		
Origination and reversal of temporary differences	0	(6,124)
Benefit of tax losses recognized	(1,787)	(4,906)
Deferred tax expense total	(1,787)	(11,030)
Total income tax in the income statement excluding income tax of equity accounted investees	(1,204)	(7,118)
Share of income tax of equity accounted investees	(142)	87
Total income tax expense	(1,346)	(7,031)

All amounts are in thousands of euro

16. Effective tax rate is specified as follows:

		2007		2006
Loss for the year		(29,337)		(11,423)
Total income tax expense		(1,204)		(7,118)
Loss excluding income tax		(30,541)		(18,541)
Income tax using Icelandic corporation tax rate	18,0%	5,523	18,0%	3,337
Effect of tax rate in foreign juridictions	3,7%	1,119	23,0%	4,265
Non-deductable expenses	(0,8%)	(259)	(2,8%)	(522)
Other items	(16,5%)	(5,037)	(0,3%)	(49)
Effective tax rate	4,3%	1,346	37,9%	7,031

Property, plant and equipment

17. Property, plant and equipment and their depreciation is specified as follows:

Cost or deemed cost	Buildings and land	Other operating assets	Total
Balance at 1 January 2006	52,424	116,713	169,137
Purchases during the year	10,551	16,103	26,654
Disposals	(8,889)	(16,700)	(25,589)
Acquisition	25,978	26,742	52,720
Exchange rate differences	(2,101)	(3,667)	(5,768)
Balance at 31 December 2006	77,963	139,191	217,154
Purchases during the year	3,384	16,454	19,838
Disposals	(7,983)	(29,002)	(36,985)
Acquisition	10	1,505	1,515
Exchange rate differences	(3,192)	(8,422)	(11,614)
Balance at 31 December 2007	70,182	119,726	189,908

Depreciation and impairment losses

	Buildings and land	Other operating assets	Total
Balance at 1 January 2006	14,271	69,834	84,105
Acquisitions through business combinations	673	2,459	3,132
Depreciation	12,813	17,103	29,916
Disposals	(6,590)	(14,311)	(20,901)
Exchange rate differences	(1,106)	(2,395)	(3,501)
Balance at 31 December 2006	20,061	72,690	92,751
Depreciation	3,145	13,749	16,894
Disposals	(12,678)	(19,845)	(32,523)
Exchange rate differences	(911)	(4,724)	(5,635)
Balance at 31 December 2007	9,617	61,870	71,487

Carrying amounts

	Buildings and land	Other operating assets	Total
1.1.2006	38,153	46,879	85,032
31.12.2006	57,902	66,501	124,403
31.12.2007	60,565	57,856	118,421
Depreciation ratios	2-10%	10-20%	

Finance leases

18. Equipment and machinery for which the Group has concluded lease agreements are capitalized despite the ownership right of the lessor according to the agreements. The remaining balance of the lease agreements amounted to € 6,743 thousand at year-end 2007 (2006: € 6,339 thousand).

Operating leases

19. The Group has entered into operating lease contracts for machinery and production equipment. Commitments from these contracts are not included in the balance sheet.

Mortgages and Guarantees

20. Mortages and guarantees for debt with a remaining balance of € 164,282 thousand (2006: € 115,848 thousand) were registered against the Group´s assets at year-end 2007.

Insurance value

21. Insurance and book value at year-end were as follows:

	2007	2006
Insurance value of buildings	115,529	122,819
Book value of buildings	60,565	57,902
Insurance value of other operating assets	164,719	161,830
Book value of other operating assets	57,856	66,501

Intangible assets

22. The Group's intangible assets are specified as follows:

Cost	Goodwill	Trademarks	Business relationships	Other intangible assets	Total
Balance at 1.1. 2006	163,593	6,780	2.604	2.754	175,731
Purchases during the year	0	15	0	0	15
Acquisitions during the year	59,486	22.791	14,817	1,367	98,461
Disposals	(5,316)	(4)	0	(155)	(5,475)
Exchange rate differences	(8,113)	(688)	(255)	(146)	(9,202)
Balance at 31.12.2006	209,650	28,894	17,166	3,820	259,530
Purchases during the year	226	0	0	172	398
Acquisitions during the year	0	0	436	955	1,391
Disposals	(2,523)	(14)	(169)	(1,003)	(3,709)
Exchange rate differences	(14,353)	(637)	(306)	(254)	(15,550)
Balance at 31.12.2007	193,000	28,243	17,127	3,690	242,060
Amortisations and impairment losses					
Balance at 1.1.2006	3,531	0	256	901	4,688
Amortisation for the year	0	2	1,038	526	1,566
Disposals	(3,200)	6	0	501	(2,693)
Exchange rate difference	(34)	0	(44)	(30)	(108)
Balance at 31.12.2006	297	8	1,250	1,898	3,453
Amortisation for the year	0	5	1,213	473	1,691
Impairment loss	11,397	0	411	0	11,808
Disposals	0	0	0	(877)	(877)
Exchange rate differences	(826)	0	(189)	(188)	(1,203)
Balance at 31.12.2007	10,868	13	2,685	1,306	14,872

All amounts are in thousands of euro

22. continued

Carrying amounts	Goodwill	Trademarks	Business relationships	Other intangible assets	Total
1.1.2006	160,062	6,780	2,348	1,853	171,043
31.12.2006	209,353	28,886	15,916	1,922	256,077
31.12.2007	182,132	28,230	14,442	2,384	227,188
Depreciations ratios			5-20%	4-15%	

Amortisation and impairment charge

The amortisation is allocated to the cost of inventory and is recognised in cost of goods sold as inventory is sold. The impairment loss is recognised in other operating expense in the income statement.

Impairment testing for cash generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating entities which represent the lowest level within the Group, at which the goodwill is monitored for internal management purposes.

The recoverable amount of cash generating unit in USA was estimated based on its value in use. Based on the assessment the carrying amount of goodwill was determined to be € 11,397 thousand higher than its recoverable amount and an impairment loss was recognised. The recoverable amount of business relationships in Sirius ehf. was estimated based on its value in use. An impairment loss amounting to € 411 thousand was recognised.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:	**2007**	**2006**
Seachill Ltd.	53,623	58,553
Pickenpack Hussmann & Hahn GmbH	44,639	44,639
Icelandic USA Inc.	35,595	51,607
Sjóvík ehf.	25,793	28,796
Icelandic Scandinavia ApS	12,971	12,971
Coldwater UK Ltd.	9,169	10,025
Fiskval ehf.	342	330
VGI ehf.	0	2,432
Total goodwill	182,132	209,353

The value in use of each unit was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

Cash flows were projected based on actual operating results and a five year business plan for each unit approved by management. Cash flows for future periods were extrapolated using a constant growth rate.

The anticipated annual real revenue growth rate included in the cash flow projection was 2.0% to 14.6% for the years 2008 to 2012 and 2.0% for the future growth rate.

A post-tax discount rate of 5.7% to 10.5% was applied in determining the recoverable amount of the units. The discount rate was estimated based on the companies weighted average cost of capital, which was based on an industry average of debt leveraging.

The above estimates are particularly sensitive in the following areas:

- An increase of 1 percentage point in the discount rate used would have increased the impairment loss by € 24.7 million.
- A 10 percent decrease in future planned EBITDA would have increased the impairment loss by € 21.9 million.

All the carrying amount of goodwill is related to the production companies.

Trademarks purchased and aquired are capitalised by the Group´s production companies.

Equity accounted investees

23. The carrying amount of the Group's investments in equity accounted investees are specified as follows:

	Share	2007	Share	2006
Maru Seafood P/F, Faroe Islands	33,0%	1,355	33,0%	1,879
Coldwater Shellfish Ltd., UK	50,0%	0	50,0%	0
Clarke Icelandic Partners Ltd., Canada	50,0%	196	50,0%	178
Total investments in associates		1,551		2,057

At year-end the Group's accumulated share in the loss of Coldwater Shellfish Ltd. is higher than the carrying amount, therefor the carrying amount is reduced to nil. The difference reduces a loan to the company.

Financial informations on equity accounted investees 2007 - 100%:

	Assets	Liabilities	Equity	Income	Profit (loss)
Maru Seafood P/F, Faroe Islands	35,160	(31,055)	4,105	31,978	(1,488)
Coldwater Shellfish Ltd., UK	1,598	(2,588)	(990)	5,043	(84)
Clarke Icelandic Partners Ltd. Canada	414	(21)	393	21	17
Total	37,172	(33,664)	3,508	37,042	(1,555)

Financial informations on equity accounted investees 2006 - 100%:

	Assets	Liabilities	Equity	Income	Profit (loss)
Maru Seafood P/F, Faroe Islands	36,226	(30,632)	5,594	26,202	(162)
Coldwater Shellfish Ltd., UK	1,810	(2,793)	(983)	4,626	64
Clarke Icelandic Partners Ltd. Canada	781	(425)	356	2,025	1,575
Total	38,817	(33,850)	4,967	32,853	1,477

Other investments

24. The Group's other investments are specified as follows:

	2007	2006
Held-to-maturity investments	5,931	4,074
Financial assets designated at fair value through profit or loss	2,393	11,062
	8,324	15,136
Current maturities	(915)	(138)
Total other investments	7,409	14,998

Held-to-maturity investments have interest rates of 5.3% to 15.2% (2006: 5.3% to 6.5%) and mature in 1 to 7 years.

The financial assets designated at fair value through profit and loss are equity securities that otherwise would have been classified as available-for-sale.

The Group´s exposure to credit, currency and interest rate risks related to other investments is disclosed in note 38.

Inventories

25. Inventories are specified as follows:

	2007	2006
Raw material and work in process	130,437	154,857
Finished goods	112,095	144,300
Total inventories	242,532	299,157

Trade and other receivables

26. Trade and other receivables are specified as follows:

	2007	2006
Trade receivables	141,276	159,291
Other receivables	14,703	15,686
Prepaid expenses	3,253	4,112
Total trade and other receivables	159,232	179,089

The Group´s exposure to credit and currency risk and impairment losses related to trade and other receivables are disclosed in note 38.

Equity

27. Issued shares

The Company's total number of shares according to its Articles of Association are 2,893 million (2006: 2,893 million). Issued shares at year-end numbered 2,893 million (2006: 2,893 million) and is all paid for. The owners of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share of one ISK at meetings of the Company.

The Company concluded put option agreements with key employees in the year 2004. The agreements allowed the employees to purchase shares in the Parent Company at market value from the Company. The employees had put option on the shares which allowed them to sell them back to Company according to clauses in the agreements. The total number of shares in question amounted nil (2006: 15 million) at the rate of ISK 6.4. These contracts were settled in September 2007. The price of the put option amounted to nil (2006: € 852 thousand) and therefore equity was reduced by this amount at year end 2006.

28. Share premium

Share premium represents excess of payments above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to Icelandic Companies Act, 25% of the nominal share capital must be held in reserve which can not be paid out as dividend to shareholders.

29. Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

30. Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occured.

31. Other reserves

Other reserves are specified as follows:

	2007	2006
Own shares sold with put options	0	(852)
Translation reserve	(26,931)	(12,085)
Hedging reserve	(1,005)	0
Statutory reserve	373	373
Other reserves total	(27,563)	(12,564)

Earnings per share

32. The calculation of basic earnings per share was based on the profit attributable to shareholders of the Parent Company and a weighted average number of shares outstanding during the year calculated as follows:

Basic earnings per share:	**2007**	**2006**
Loss for the year attributable to equity holders of the parent	(29,798)	(11,373)
Shares at the beginning of the year	2,891,875	2,168,091
Effect of purchased and sold own shares	(10,768)	0
Share increase in January, April and May 2006	0	689,488
Weighted average number of ordinary shares	2,881,107	2,857,579
Loss per share of ISK 1	(0,0103)	(0,0040)

Diluted earnings per share is equal to basic earnings per share as the Company has not entered into share options agreements and has no convertible loans.

Loans and borrowings

33. Loans and borrowings are specified as follows:

2007 Currency	Non-current liabilities	Current liabilities	Total
EUR	111,921	136,466	248,387
GBP	61,698	96,174	157,872
USD	8,164	25,950	34,114
JPY	3,729	20,615	24,344
DKK	14,195	6,815	21,010
CHF	775	10,983	11,758
CAD	0	9,182	9,182
CNY	0	3,634	3,634
NOK	0	2,782	2,782
SEK	0	1,455	1,455
Loans and borrowings, total	200,482	314,056	514,538
Current maturities of non-current liabilities	(12,486)	12,486	0
Loans and borrowings according to the balance sheet	187,996	326,542	514,538

2006 Currency	Non-current liabilities	Current liabilities	Total
EUR	128,681	92,225	220,906
USD	11,375	127,230	138,605
GBP	92,424	36,256	128,680
DKK	13,913	11,089	25,002
JPY	3,930	17,945	21,875
CHF	802	11,140	11,942
CAD	0	8,567	8,567
NOK	0	3,370	3,370
ISK	1,697	84	1,781
SEK	0	1,484	1,484
Loans and borrowings, total	252,822	309,390	562,212
Current maturities of non-current liabilities	(33,070)	33,070	0
Loans and borrowings according to the balance sheet	219,752	342,460	562,212

34. Non-current loans and borrowings are payable as follows:

	2007	2006
Year 2007	-	33,070
Year 2008	12,486	14,837
Year 2009	23,073	27,742
Year 2010	22,084	63,721
Year 2011	38,276	40,654
Year 2012	20,546	21,744
Subsequent	84,017	51,054
Non-current loans and borrowings including current maturities	200,482	252,822

Deferred tax assets and liabilities

35. Deferred tax asset and liabilities are specified as follows:

	Deferred tax assets	Deferred tax liability	Total
Balance at 1.1.2006	(1,396)	5,196	3,800
Deferred tax liability acquired	0	7,646	7,646
Income tax	(8,309)	1,191	(7,118)
Income tax payable 2007 on 2006 activities	0	(3,912)	(3,912)
Exchange rate difference, prepaid tax and other changes	(42)	(1,691)	(1,733)
Balance at 31.12.2006	(9,747)	8,430	(1,317)
Income tax	(2,696)	1,492	(1,204)
Income tax payable 2008 on 2007 activities	0	(583)	(583)
Exchange rate difference, prepaid tax and other changes	866	(1,893)	(1,027)
Balance at 31.12.2007	(11,577)	7,446	(4,131)

The deferred income tax asset is attributable to the following items:

	2007	2006
Property, plant and equipment	5,790	9,335
Intangible assets	5,758	2,856
Shares in other companies	133	0
Tax losses carried forward	(9,586)	(8,830)
Other items	(6,226)	(4,678)
Net income tax asset at year-end	(4,131)	(1,317)

No income tax is recognised in equity.

Restructuring

36. Icelandic USA Inc., subsidiary of Icelandic Group, decided at year-end 2006 to close the company's Cambridge, Maryland, production facility by year end 2007. The decision to close the plant was based on its ability to fill projected product manufacturing and distribution needs using the company's Newport News, Virginia, production facility and a newly completed distribution center also located in Newport News. Looking to the future, the closure was expected to provide critical production and distribution efficiencies. € 12,733 thousand was charged to the income statement. The closing resulted in a much improved cost structure for Icelandic USA. The restructuring was completed in 2007 with the sale of the production facility in Cambridge at the end of the year and the inventories and trademarks of Ocean to Ocean.

During 2006 the production of frozen products was transferred to Pickenpack Gelmer, France, from Coldwater Seafood UK in Grimsby, which now specialises in the manufacture of chilled and frozen ready meals. Due to the restructuring of Coldwater € 1,614 thousand was charged to the income statement in 2006. The restructuring was completed in 2007.

Icelandic France SAS went through a restructuring process in the year 2006. The company had three offices in France; in Paris, Evry and Marseille. A decision was made in 2006 to close all offices and move the operation solely to Paris. Cost due to the closures as well as inventory write down amount to € 2,800 thousand in the year 2006. The restructuring was completed in 2007.

Trade and other payables

37. Trade and other payables are specified as follows:

	2007	2006
Trade payables	102,728	114,710
Taxes for the year	583	256
Other payables	38,438	44,901
Total trade and other payables	141,749	159,867

Financial instruments

Exposure to credit risk

38. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2007	2006
Held-to-maturity investments	5,931	4,074
Financial assets at fair value through profit or loss	2,393	11,062
Loans and receivables	158,317	178,951
Cash and cash equivalents	28,153	21,222
	194,794	215,309

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2007	2006
Domestic	11,131	7,540
United Kingdom	30,472	32,853
Continental Europe	60,085	65,157
USA	26,447	36,884
Asia	13,141	16,857
	141,276	159,291

The Group´s five most significant customers account for € 33.4 million of the trade receivables carrying amount at 31 December 2007 (2006: € 33.5 million).

Impairment losses

The aging of accounts receivables at the reporting date was:

	2007		2006	
	Gross	Impairment	Gross	Impairment
Past due 0-30 days	91,145	0	84,805	0
Past due 31-90 days	41,911	870	60,418	150
Past due 91-180 days	3,533	592	7,686	476
Past due 181-360 days	2,500	428	3,186	976
More than one year	2,857	609	3,309	758
	141,946	2,499	159,404	2,360

Provision for losses on trade and other receivables are specified as follows:

	2007	2006
Provision at 1 January	2,360	2,054
Actual losses during the year	(38)	(266)
Provision for the year	358	656
Exchange rate difference	(181)	(84)
Provision at 31 December	2,499	2,360

38. continued

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2007	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative finanancial liabilities						
Non-current loans and borrowings	200,202	252,240	26,499	36,213	133,790	55,738
Current loans and borrowings	314,056	336,040	336,040	0	0	0
Trade and other payables	141,749	141,749	141,749	0	0	0
	656,007	730,029	504,288	36,213	133,790	55,738
31 December 2006						
Non-derivative finanancial liabilities						
Non-current loans and borrowings	252,822	315,276	48,239	28,022	161,849	77,166
Current loans and borrowings	309,390	329,938	329,938	0	0	0
Trade and other payables	159,867	159,867	159,867	0	0	0
	722,079	805,081	538,044	28,022	161,849	77,166

Currency risk

Exposure to currency risk

The Group´s exposure to foreign currency risk was as follows based on notional amounts:

31 December 2007	GBP	CHF	CAD	USD	Other
Trade receivables	3,617	9	270	6,604	9,503
Loans and borrowings	(12,884)	(11,758)	(9,182)	(4,502)	(12,572)
Trade payables	(2,884)	0	(22)	(10,257)	(4,358)
Gross balance sheet exposure	(12,151)	(11,749)	(8,934)	(8,155)	(7,427)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2007	2006	2007	2006
GBP	0,6838	0,6814	0,7335	0,6709
CHF	1,6424	1,5733	1,6548	1,6071
CAD	1,4663	1,4250	1,4439	1,5289
USD	1,3679	1,2566	1,4705	1,3166

Sensitivity analysis

A 10 percent strengthening of the euro against the above mentioned currencies at 31 December would have increased pre-tax profit or loss by € 4,832 thousand. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10 percent weakening of the euro against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

38. continued

Interest rate risk

Profile

At the reporting date the interest rate profile of the Group´s interest bearing financial instruments was:

	Carrying amount	
	2007	2006
Fixed rate instruments		
Financial assets	5,016	3,936
Financial liabilities	(91,459)	(109,824)
	(86,443)	(105,888)
Variable rate instruments		
Financial liabilities	(423,079)	(452,388)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

A change of 100 basis points in interest rates would have decreased pre-tax profit or loss by € 4,230 thousand (2006: € 4,524 thousand).

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have decreased equity and pre-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

	Profit or loss	
	100bp increase	100bp decrease
31 December 2007		
Variable rate instruments	4,230	4,230
Cash flow sensitivity (net)	4,230	4,230
31 December 2006		
Variable rate instruments	4,524	4,524
Cash flow sensitivity (net)	4,524	4,524

Fair values versus carrying amounts

The fair values of finanical assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	31 December 2007		31 December 2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Held-to-maturity investments	5,931	5,813	4,074	4,074
Financial assets designated at fair value through profit or loss	2,393	2,393	11,062	11,062
Loans and receivables	159,232	159,232	179,089	179,089
Cash and cash equivalents	28,153	28,153	21,222	21,222
Loans and borrowings, non–current	(187,996)	(181,216)	(219,752)	(217,898)
Loans and borrowings, current	(326,542)	(325,209)	(342,460)	(339,612)
Trade and other payables	(141,749)	(141,749)	(159,867)	(159,867)
Gross balance sheet exposure	(460,578)	(452,583)	(506,632)	(501,930)

Operating leases

39. Non-cancellable operating lease rentals are payable as follows:

	2007	2006
Less than one year	3,826	4,231
Between one and five years	9,970	12,809
More than five years	369	518
	14,165	17,558

Statement of Cash Flows

40. Changes in operating assets and liabilities in the statement of cash flows are specified as follows:

	2007	2006
Inventories, decrease (increase)	40,834	(17,844)
Trade and other receivables, (increase) decrease	(4,796)	15,170
Trade and other payables, decrease	(5,342)	(42,630)
Net changes in working capital	30,696	(45,304)

41. Cash flows from operating activities are specified as follows:

	2007	2006
Loss for the year	(29,337)	(11,423)
Difference between loss and cash flows from operations:		
Profit from sales of assets	(3,586)	(3,857)
Depreciations, amortisation and impairment losses	30,393	31,482
Loss (profit) of equity accounted investees	398	(700)
Fair value changes on shares in other companies	(16,063)	0
Income tax	(3,382)	(12,784)
Other items	(763)	(3,823)
Net changes in working capital	(22,340)	(1,105)

42. Investing and financing activities not affecting cash flows:

	2007	2006
Investments in subsidiaries	0	(104,496)
Issue of share capital	0	86,852
Short-term borrowings	0	17,644

Related parties

43. Identity of related parties

The Group has a related party relationship with its subsidiaries, associates, and with its directors and executive officers.

Transactions with key management personnel

Directors of the Company and their relatives control 20.7% of the voting shares of the Company (2006: 20.5%). Members of the Group's key management hold no put options to sell (2006: 15 million) shares to the Company.

Other related party transactions

Associates

During the year ended 31 December 2007, associates purchased goods from the Group in the amount of € 761 thousand (2006: € 843 thousand) and at 31 December 2007 associates owed the Group € 3,917 thousand (2006: € 3,931 thousand) and the Group owed associates € 1,863 thousand (2006: € 898 thousand). The Group purchased goods and services from associates in the amount of € 10,534 thousand (2006: € 10,356 thousand). Transactions with associates are priced on an arm's length basis. During the year ended 31 December 2007, the associated companies paid nil dividend (2006: nil) to the Group.

Group entities

44. Subsidiaries numbered 34 at year-end (2006: 33) and are all included in the consolidated financial statements. They are:

	Share
Beihai Beilian Foods Industry Inc., China	51%
Coldwater Seafood (UK) Ltd., UK	100%
Dalian Three Star Seafood Co. Ltd., China	98%
Danberg ehf., Iceland	100%
Ecomsa S.A., Spain	100%
Fiskval ehf., Iceland	100%
Gadus B.V., The Netherlands	100%
Icelandic Asia Inc., S-Korea	100%
Icelandic China Trading Co. Ltd., China	100%
Icelandic France S.A.S., France	100%
Icelandic Group UK Ltd., UK	100%
Icelandic Holding Germany GmbH, Germany	100%
Icelandic Iberica S.A., Spain	100%
Icelandic Japan K.K., Japan	100%
Icelandic Norway AS, Norway	100%
Icelandic Northwest Inc., USA	85%
Icelandic Scandinavia ApS, Denmark	100%
Icelandic Services ehf., Iceland	100%
Icelandic UK Ltd., UK	100%
Icelandic USA Inc., USA	100%
IFP Trading Ltd., UK	100%
Jeka Fish AS, Denmark	100%
Marinus ehf., Iceland	100%
OTO L.L.C., USA	100%
Pickenpack Assets GmbH, Germany	100%
Pickenpack Gelmer SAS, France	100%
Pickenpack H&H GmbH, Germany	100%
Pickenpack H&H S.a.r.l., France	100%
Seachill Ltd., UK	100%
Sirius ehf., Iceland	100%
Sjóvík ehf. (Blue-Ice), Iceland	100%
Unifish ehf. a.v., Iceland	100%
Verwaltungg. HFP GmbH, Germany	100%
Westfalia-Strenz F. GmbH, Germany	100%

Other issues

45. The Board of Directors of Icelandic Group hf. emhasizes on maintaining good corporate governance according to the guidelines issue by the OMX Nordic Exchange Iceland. The Board of Directors has set guidelines regarding corporate governance with regard to its operations laying down the sphere of competence of the board of directors and its scope of work vis-à-vis the managing director. These guidelines contain i.a. rules regarding the procedure at Board meetings, rules regarding the competence of directors to participate in discussion and handling matters, confidentiality rules, rules regarding the divulging of information by the managing director to the directors etc. The guidelines include specific clauses with reference to rules on insider trading and the treatment of insider information according to laws on securities trading, the rules of the Financial Supervisory Authorities in Iceland and internal Company rules. The Board's guidelines also include detailed clauses regarding the flow of information to the Board and performance measurement in accordance with article 2.3. in the guidelines issued by the OMX Nordic Exchange Iceland.

Minority of the board members of the company is considered independent towards the Company as defined by the OMX Nordic Exchange Iceland, article 2.6. Minority of the board members is also independent of large shareholders in the Company according to article 2.5.

No sub-committees are organised with the Company's board of directors.

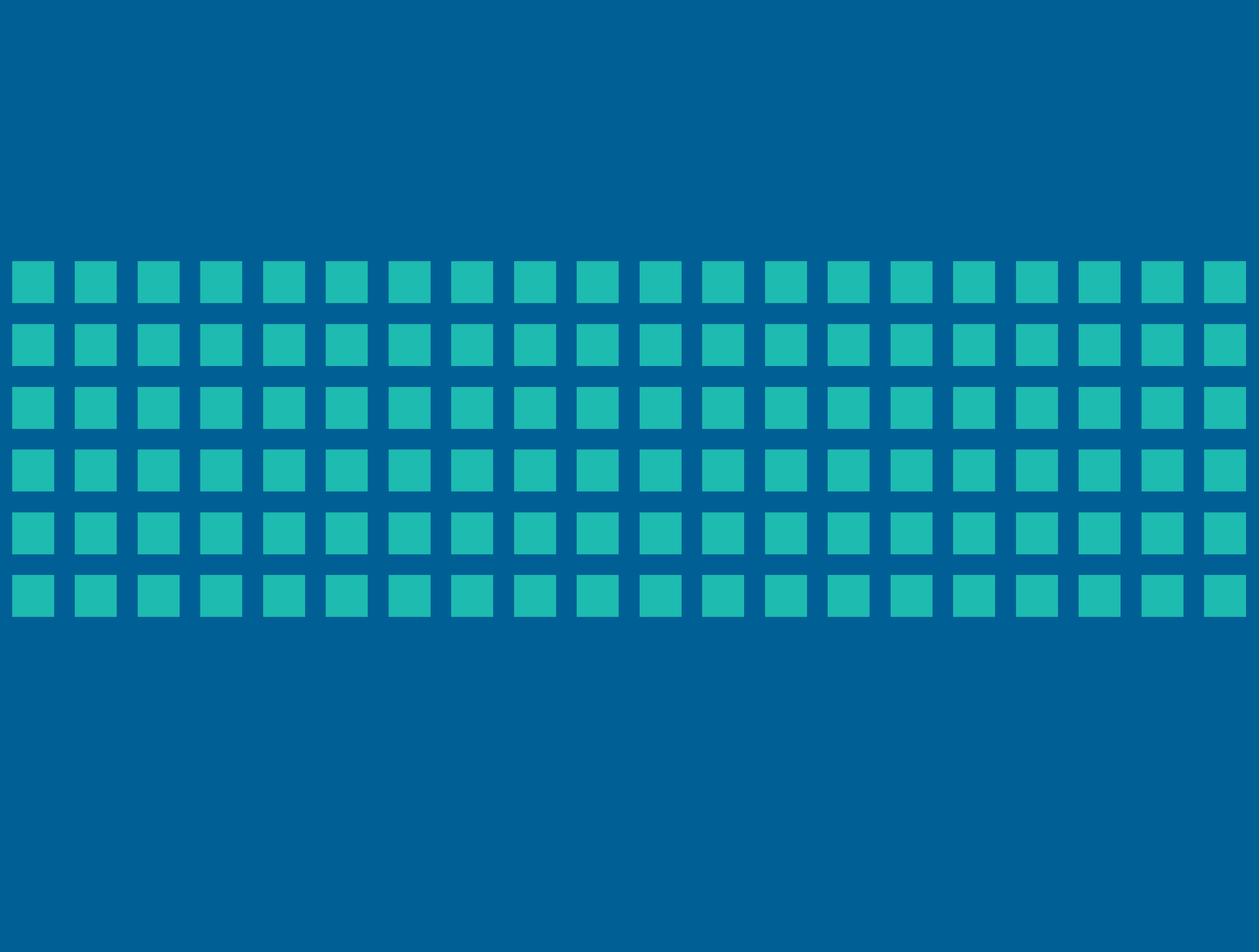
A formal share option programme has not been put in place and therefore such a programme has not been approved by shareholders meeting.

In light of the above-mentioned it is clear that operations of Icelandic Group hf. is not in full coordination with the guidelines issued by the OMX Nordic Exchange Iceland regarding corporate governance.

Financial Ratios

46. Financial ratios for the consolidated financial statements:

	2007	**2006**
Current ratio	0.92	0.99
Equity ratio	16.6%	19.4%
Return on equity	(16.7%)	(5.7%)
Internal value	3.61	4.77
Change in price per share from the beginning of the year	(32.0%)	(20.8%)
Price per share (ISK)	5.17	7.60
Market value of the company (EUR)	164,465	233,054
EBITDA	28,338	36,946
EBITDA ratio	2.0%	2.5%



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This Annual Report contains forward-looking statements with respect to the financial condition, results of operations and businesses of Icelandic Group. By their nature, forward-looking statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results and developments to differ materially from that expressed or implied by these forward-looking statements. These factors include the availability of resources, the timing and effect of regulatory actions, the success of new products, the strength of competition, the success of research and development issues, unexpected contract breaches or terminations, exposure to product liability and other lawsuits, the effect of currency fluctuations and other factors.

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