

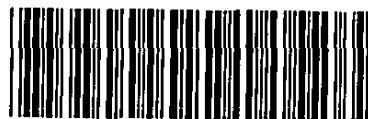
Company Registration No. 06664921

Bakkavör Estates Limited

Report and Financial Statements

1 January 2011

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Bakkavör Estates Limited

Report and financial statements 2010

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Bakkavör Estates Limited

Report and financial statements 2010

Officers and professional advisers

Directors

A Gudmundsson

Secretary

J Jowett (resigned 31 March 2010)
R Howes (appointed 31 March 2010, 5 July 2010)
J Stansbury (appointed 5 July 2010)

Registered Office

West Marsh Road
Spalding
Lincolnshire
PE11 2BB

Bankers

Barclays Bank PLC
10 Hall Place
Spalding
Lincolnshire
PE11 1SR

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor,
Birmingham,
United Kingdom

Bakkavör Estates Limited

Directors' report (continued)

The Directors present their annual report and the audited financial statements for the period from 2 January 2010 to 1 January 2011. Comparatives are for the 74 week period ended 2 January 2010.

Business review and Principal activities

Bakkavör Estates Limited was incorporated on 5 August 2008 and is a 100% owned subsidiary of Bakkavör Holdings Limited, who have made a capital contribution of £7,000,000 since incorporation. Bakkavör Holdings Limited is a 100% owned subsidiary of Bakkavör Group ehf. The principal activity of the Company is to hold all UK freehold property within the Bakkavör Group.

Since incorporation there have been no significant changes in the Company's principal activities. Due to the nature of this Company, the directors are satisfied with the results and achievements in the period to 1 January 2011 and believe that the future prospects of the Company are sound.

The Company made a profit before taxation of £5,225,000 (2009: loss of £8,294,000).

The statement of financial position on page 8 of the financial statements shows total equity amounting to £3,080,000 (2009: £181,000) and that the company's financial position at the period end, is in both net asset terms and cash terms consistent with the directors' expectations. Details of amounts owed to group companies are shown in note 20.

On 29 March 2010 Bakkavör Estates Limited, which holds the UK Freehold property for the Group, refinanced its facility through the Group's main UK banking facility in Bakkavör London Limited.

Details of significant events since the statement of financial position date are contained in note 19 to the financial statements.

Principal risks and uncertainties

The Company's activities expose it to a number of financial risks as follows:

Interest rate management

The Company is exposed to interest rate movements and as a result the group's treasury function enters into interest rate swap contracts to minimise and manage this exposure. At 1 January 2011, nil (2009: 100%) of the Company's borrowing is covered by interest rate swaps. We have a policy of managing our exposure to interest rate fluctuations and use interest rate swaps to give protection from significant movements in short term interest rates. More information on the group's interest rate risk is given in note 13 to the financial statements.

Liquidity risk

In order to maintain liquidity to ensure the sufficient funds are available for ongoing operations and future developments, the Company maintains sufficient cash reserves and has secured a loan.

On 29 March 2010 an agreement was signed between the lender and Bakkavör Estates Limited and Bakkavör London Limited, under which Bakkavör London Limited has agreed to refinance the loan through quarterly installments, with the final instalment on 10 January 2011. The lender has waived the technical default. On 10 January 2011 the Company made a final payment of £21.3 million to fully repay the bank loans outstanding. On the 7 February 2011, the Group restructured and refinanced its main financing facilities.

The directors have reviewed the historic trading performance of the Company and considered the confirmation from group companies that the payables due from those companies will not be recalled for a period of at least 12 months from the date of signing these accounts. Directors also considered the forecasts for the next five years and have taken into consideration the principal risks and uncertainties that the Company faces, in order to assess the level of finance required across the Group. The directors consider that adequate finance is available and therefore believe it appropriate to prepare the financial statements on a going concern basis.

Bakkavör Estates Limited

Directors' report (continued)

Credit risk

The Company has no significant concentration of credit risk. The Company's credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit rating agencies. Group policy is to ensure that the group deals with banks that have a minimum 'A' credit rating from a reputable credit rating agency such as Moody's or Standard and Poor's. Deposits within the group should be shared between banks with high credit ratings to spread the risk. Current group policy is to place deposits with those that are counterparties in the group's secured committed bank facilities. This further secures the deposits placed by group as they are with banks with which we have borrowings.

Environment

The Bakkavör Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that may be caused by the group's activities. The Company operates in accordance with group policies which are described in the Bakkavör Group ehf Annual report and Accounts which does not form part of this report.

Charitable and political contributions

The Company made no charitable or political donations during either period.

Directors

The directors who served throughout the period and subsequently were as follows:

A Gudmundsson

R Howes (resigned 15 October 2010)

During 2007, the Company entered into indemnity deeds containing "qualifying third party indemnity provisions", as defined in section 234 of the Companies Act 2006, with all directors in respect of certain liabilities which may attach to them in their capacity as directors or former directors of the Company. These indemnity provisions remain in place at the date of signing the accounts.

The interests of A Gudmundsson in the shares of the ultimate parent company, who was also a Director of Bakkavör Group ehf the ultimate parent company, are set out in that company's Annual Report and Accounts, which does not form part of this report. The Directors had no other disclosable interests.

Bakkavör Estates Limited

Directors' report (continued)

Auditor

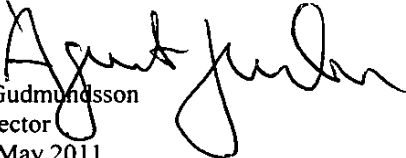
Each of the persons who is a director at the date of approval of these financial statements confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Approved by the Board of Directors
and signed on behalf of the Board


A Gudmundsson
Director
10 May 2011

Bakkavör Estates Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Bakkavör Estates Limited

We have audited the financial statements of Bakkavör Estates Limited for the 52 weeks ended 1 January 2011 which comprise the income statement, the statement of changes in equity, the statement of financial position, statement of cash flows, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 1 January 2011 and of its profit for the period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 2 to the financial statements, the Company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Bakkavör Estates Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Jane Lodge BSc FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Birmingham, UK

16 May 2011

Bakkavör Estates Limited

Income statement

52 weeks ended 1 January 2011

		52 weeks ended 1 January 2011 £'000	74 weeks ended 2 January 2010 £'000
	Note		
Revenue	4	6,741	8,382
Cost of sales		-	-
Gross profit		6,741	8,382
Administrative expenses		(3,083)	(4,267)
Operating profit	5	3,658	4,115
Net finance income / (expense)	8	1,567	(12,409)
Profit / (Loss) before taxation		5,225	(8,294)
Tax	9	(2,326)	1,475
Profit / (Loss) attributable to equity holders and total comprehensive income for the period		2,899	(6,819)

All results relate to continuing operations

The accompanying notes are an integral part of this income statement

The Company has no recognised gains and losses other than the profit / loss above and therefore no separate Statement of comprehensive income is presented

Statement of changes in equity

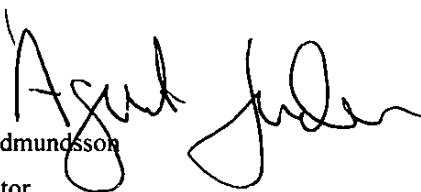
	Share Capital £'000	Capital contribution reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 5 August 2008	-	-	-	-
Loss for the period	-	-	(6,819)	(6,819)
Capital contribution	-	7,000	-	7,000
Balance at 2 January 2010	-	7,000	(6,819)	181
Profit for the period	-	-	2,899	2,899
Balance at 1 January 2011	-	7,000	(3,920)	3,080

Bakkavör Estates Limited

Statement of financial position 1 January 2011

	Note	1 January 2011 £'000	2 January 2010 £'000
Non-current assets			
Investment properties	10	59,119	62,202
Current assets			
Deferred tax asset	15	-	1,475
Assets held for sale	10	2,800	2,800
Amounts receivable from group undertakings	20	2,292	11
Cash and cash equivalents	11	7	7
Total current assets		5,099	4,293
Total assets		64,218	66,495
Current liabilities			
Trade and other payables	14	(41,314)	(13,602)
Bank loans and overdrafts	12	(19,824)	(47,444)
Derivative financial instruments	13	-	(5,268)
Total liabilities		(61,138)	(66,314)
Net assets		3,080	181
Equity			
Share capital	16	-	-
Capital contribution reserve		7,000	7,000
Retained earnings		(3,920)	(6,819)
Total equity		3,080	181

The financial statements of Bakkavör Estates Limited, company number 06664921 were approved by the board of directors and authorised for issue on 10 May 2011. They were signed on its behalf by


A Gudmundsson
Director

The accompanying notes are an integral part of this statement of financial position

Bakkavör Estates Limited

Statement of cash flows 52 weeks ended 1 January 2011

	Note	52 weeks ended 1 January 2011 £'000	74 weeks ended 2 January 2010 £'000
Net cash from operating activities	17	1,917	4,018
Investing activities			
Purchase of investment properties		-	(51,455)
Net cash used in investing activities		-	(51,455)
Financing activities			
New Bank borrowings		-	51,400
Repayment of bank borrowings		(27,620)	(3,956)
Intercompany changes		25,703	-
Net cash (used in) / from financing activities		(1,917)	47,444
Net increase in cash and cash equivalents		-	7
Cash and cash equivalents at beginning of period		7	-
Cash and cash equivalents at end of period		7	7

Bakkavör Estates Limited

Notes to the financial statements 52 weeks ended 1 January 2011

1. General information

Bakkavör Estates Limited is a Company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The principal activity of the Company is to hold all UK freehold property within the Bakkavör Group.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

In the current year, the Company has adopted the following interpretations with no material impact on the financial statements of the Company:

<i>IFRS 1 (Revised)</i>	<i>First time adoption of International Financial Reporting Standards</i>
<i>IFRS 2 (Revised)</i>	<i>Share-based payment</i>
<i>IFRS 3 (Revised)</i>	<i>Business combinations</i>
<i>IFRS 7 (Revised)</i>	<i>Financial Instruments Disclosures</i>
<i>IAS 27 (Revised)</i>	<i>Consolidated and Separate Financial Statements</i>
<i>IAS 39 (Revised)</i>	<i>Financial instruments Recognition and Measurement</i>
<i>IFRIC 17</i>	<i>Distributions of Non-Cash Assets to Owners</i>
<i>IFRIC 18</i>	<i>Transfers of Assets from Customers</i>

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

<i>IFRS 9</i>	<i>Financial Instruments</i>
<i>IAS 24 (Revised)</i>	<i>Related Party Disclosures</i>
<i>IAS 32 (Revised)</i>	<i>Classification of Rights Issues</i>
<i>IFRIC 14 (Revised)</i>	<i>IAS 19 – the Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>
<i>IFRIC 19</i>	<i>Extinguishing financial liabilities with equity instruments</i>

Improvements to IFRS

The adoption of IFRS 9 which the Company plans to adopt for the year beginning on 1 January 2013 will impact both the measurement and disclosures of Financial Instruments.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The directors have reviewed the historic trading performance of the Group, the forecasts for the next five years and have also taken into consideration the principal risks and uncertainties that the Group faces, in order to assess the level of finance required across the Group. The directors consider that adequate finance is available and therefore believe it appropriate to prepare the financial statements on a going concern basis.

Where the fiscal year 2010 is quoted in these financial statements this relates to the 52 week period ending 1 January 2011. The fiscal year 2009 relates to the 53 week period ending 2 January 2010.

The principal accounting policies adopted are set out below.

Bakkavör Estates Limited

Notes to the financial statements (continued) **52 weeks ended 1 January 2011**

2. Significant accounting policies (continued)

Accounting convention

The financial statements are prepared under the historical cost convention

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. The rendering of services is recognised in line with contract terms.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Investment properties

All investment properties are recorded at cost less accumulated depreciation and any recognised provision for impairment.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following bases:

Freehold buildings	-	2% to 15% per annum straight line
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The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income. When the directors approve the sale of a property it is reclassified as held for sale.

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Bakkavör Estates Limited

Notes to the financial statements (continued) **52 weeks ended 1 January 2011**

2. Significant accounting policies (continued)

Taxation (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis

Impairment of tangible assets

At each statement of financial position date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument.

Financial assets

Financial assets held by the company are classified as available for sale or loans and receivables at amortised cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Any gains or losses in assets held as available for sale arising from a change in fair value are recognised in the income statement for the period.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash through the expected life of the financial asset. Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if

Bakkavör Estates Limited

Notes to the financial statements (continued)

52 weeks ended 1 January 2011

2. Significant accounting policies (continued)

Financial assets at FVTPL (continued)

It has been acquired principally for the purpose of selling in the near future, or

It is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking, or

It is a derivative that is not designated and effective as a hedging instrument

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if

Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or

The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Company is provided internally on that basis, or

It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables at amortised cost. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the Company amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed and does not exceed what the amortised cost would have been had the impairment not been recognised.

Bakkavör Estates Limited

Notes to the financial statements (continued) **52 weeks ended 1 January 2011**

2. Significant accounting policies (continued)

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity

Cash and cash equivalents

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

Financial liabilities

Financial liabilities held by the Company are classified as other financial liabilities at amortised cost and derivatives at FVTPL

Financial liabilities at FVTPL

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if

The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Company is provided internally on that basis

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire

Derivative financial instruments and hedge accounting

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Company does not use derivative financial instruments for speculative purposes

The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise

Bakkavör Estates Limited

Notes to the financial statements (continued) **52 weeks ended 1 January 2011**

2. Significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the statement of financial position date, and are discounted to present value where the effect is material.

Foreign currencies

The financial statements of the company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Company are expressed in pounds sterling, which is the functional currency of the Company.

In preparing the financial statements of the company transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the company enters into forward contracts and options (see below for details of the Company's accounting policies in respect of such derivative financial instruments). Where a forward contract is taken out, the values are translated at the contracted rate.

Assets held for sale

Current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

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

Bakkavör Estates Limited

Notes to the financial statements (continued) **52 weeks ended 1 January 2011**

2. Significant accounting policies (continued)

Assets held for sale (continued)

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale

3. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the group's accounting policies

The preparation of the financial statements in conformity with adopted IFRS requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period then ended. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from those estimates.

Estimates are used in the accounting for allowances for carrying value of uncollectible receivables, depreciation, impairment, pensions, taxes and contingencies. Estimates and assumptions are reviewed periodically and effects of revisions are reflected in the financial statements in the period that an adjustment is determined to be required. Key judgements made are highlighted below,

Going concern

A key judgement in the preparation of the financial statements is the appropriateness of using the going concern basis in preparing them. Management has considered the availability of future cash to this business and concluded that as a result of refinancing the group bank facilities in February 2011, there will be sufficient cash available to allow the Group to meet its financial liabilities as they fall due. Therefore management believe it appropriate to prepare the financial statements on a going concern basis.

Impairment of investment properties

Determining whether investment properties are impaired requires an estimation of the value in use of the properties. The value in use calculation requires the entity to estimate the future cash flows expected to arise from rentals and a suitable discount rate in order to calculate present value.

The carrying amount of investment properties at the balance sheet date was £59,119,000 (2009 £62,202,000). No impairment was considered necessary.

4. Revenue

	52 weeks ended 1 January 2011 £'000	74 weeks ended 2 January 2010 £'000
Rental income	<u>6,741</u>	<u>8,382</u>

Bakkavör Estates Limited

Notes to the financial statements (continued) 52 weeks ended 1 January 2011

5. Operating profit

Operating profit for the period is stated after charging

	52 weeks ended 1 January 2011 £'000	74 weeks ended 2 January 2010 £'000
Depreciation of investment property	3,083	3,853
Fees payable to the auditor in respect of the audit of the Company's accounts of £6,000 (2009 £6,000) are borne by another group undertaking		

6. Staff costs

There were no staff employed by the Company in either period

7. Directors emoluments

The directors have not provided qualifying services to this company and thus received no remuneration for their services to the Company

8. Net finance income / (expense)

	52 weeks ended 1 January 2011 £'000	74 weeks ended 2 January 2010 £'000
Other financial liabilities at amortised cost		
Interest on bank loans	2,909	6,462
Interest on intercompany loans	792	679
Change in the fair value of derivative financial instruments outstanding at period end	(5,268)	5,268
	<u>(1,567)</u>	<u>12,409</u>

Bakkavör Estates Limited

Notes to the financial statements (continued) 52 weeks ended 1 January 2011

9. Tax

	52 weeks ended 1 January 2011 £'000	74 weeks ended 2 January 2010 £'000
Current tax		
UK corporation tax	851	-
Total current tax	851	-
Deferred tax	1,475	(1,475)
Total tax charge for the period	2,326	(1,475)

The tax charge/(credit) for the period can be reconciled to the loss per the income statement as follows

	£'000	52 weeks ended 1 January 2011 %	£'000	74 weeks ended 2 January 2010 %
Profit /(loss) before tax	5,225	100	(8,294)	100
Tax at the UK corporation tax rate of 28%	1,463	28	(2,322)	28
Non-deductible expenses	863	17	513	(6)
Group relief surrendered free of charge	-	-	334	(4)
Tax charge/(credit) and effective tax rate for the period	2,326	45	(1,475)	18

Bakkavör Estates Limited

Notes to the financial statements (continued) 52 weeks ended 1 January 2011

10. Investment properties

	Land and buildings £'000
Cost	
At 5 August 2008	-
Additions	68,855
Properties reclassified as held for sale	(2,800)
At 2 January 2010 and 1 January 2011	<u>66,055</u>
Accumulated depreciation and impairment	
At 5 August 2008	-
Charge for the period	(3,853)
At 2 January 2010	(3,853)
Charge for the period	(3,083)
At 1 January 2011	<u>(6,936)</u>
Net book value at 1 January 2011	<u>59,119</u>
Net book value at 2 January 2010	<u>62,202</u>

The property rental income for the period was £6,741,000 all of which is leased under operating leases to fellow group companies. Direct operating expenses in the period relating to the maintenance of investment properties was nil (2009 - £414,000).

During the previous period properties with a carrying value of £2,800,000 were reclassified as held for sale following approval of the directors to dispose of the properties. The properties are expected to be sold within 12 months and proceeds are expected to exceed the book value, as such no impairment has been recognised on classification of the assets as held for sale.

11. Cash and cash equivalents

	1 January 2011 £'000	2 January 2010 £'000
Cash and cash equivalents	<u>7</u>	<u>7</u>
Cash and cash equivalents are all in GBP		

Bakkavör Estates Limited

Notes to the financial statements (continued) 52 weeks ended 1 January 2011

12. Bank loans

	1 January 2011 £'000	2 January 2010 £'000
Bank loans	19,824	47,444

Bakkavor Estates borrowed £51.4 million from Kaupthing Singer & Friedlander (the lender) with repayment instalments due between October 2008 and July 2013. On 11 September 2009 the facility was considered to be in default due to the transfer of Bakkavör Group ehf shares from Exista ehf to B Foods Invest ehf. On 29 March 2010 the loan repayments were modified and the technical default waived. The loan was repaid in quarterly instalments with the final instalment on 10 January 2011.

The Bakkavor Estates bank loans outstanding at 1 January 2011 were £19,824,000 and on such date the loans bear interest at a rate of 3.24% which represents LIBOR plus a margin of 2.5%.

On 10 January 2011 the Company made a final payment of £21.3 million to fully repay the bank loans outstanding.

The bank loan is secured by a floating charge over all of the assets of Bakkavör Estates Limited.

13. Derivative financial instruments

	1 January 2011 £'000	2 January 2010 £'000
Held for trading derivatives that are not designated in hedge accounting relationships		
Interest rate swaps	-	5,268

Interest rate risk management

The Company is exposed to interest rate risk on borrowings. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings. Interest risk management balances debt financing as a tool to improve the returns through leverage in the capital structure with the potential for an increase in interest rates to impact profits negatively. At the year end nil (2009: 100%) of the Company's borrowings were covered by interest rate swaps. Board approval is required for the use of any interest rate derivative.

On 29 March 2010 an agreement was signed with the lenders that would require Bakkavör Estates Limited to utilise funding from its fellow subsidiary, Bakkavor London Limited to repay the bank loans in full by 10 January 2011. As part of the agreement the interest rate swaps in place at 2 January 2010 were cancelled.

Bakkavör Estates Limited

Notes to the financial statements (continued) 52 weeks ended 1 January 2011

13. Derivative financial instruments (continued)

Interest rate sensitivity analysis

Interest rate sensitivity analysis has been performed on the financial liabilities to illustrate the impact on Company profits and equity if interest rates increased/decreased. This analysis assumes the liabilities outstanding at the period end were outstanding for the whole period. A 100 basis points increase or decrease has been used, comprising management's assessment of reasonably possible changes in interest rates. As at 1 January 2011 a 100 basis points movement would increase/decrease the Company profits by £5,431,000 (2009: no impact due to the interest rate swaps in place at that time).

Interest rate swaps

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

The interest rate swap contracts were terminated on 29 March 2010, therefore as at 1 January 2011 there were no interest rate swap contracts (2009: a single contract was in place that expired in 2013 with a fixed interest rate of 8.91% with a principle of £47,444,000 and fair value of £5,268,000).

14. Trade and other payables

	1 January 2011 £'000	2 January 2010 £'000
Accruals for liabilities and charges	1,485	1,118
Amounts owed to group undertakings	38,978	12,484
Group relief	851	-
	<u>41,314</u>	<u>13,602</u>

Accruals principally comprise interest due and legal fees, all payable within one year and denominated in sterling. The directors consider that the carrying amount of trade and other payables approximates to their fair value and are held at amortised cost.

Bakkavör Estates Limited

Notes to the financial statements (continued) 52 weeks ended 1 January 2011

15. Deferred tax

The following are the major deferred tax assets recognised by the Company and movements thereon during the current reporting period

£million	1 January 2011 £'000	2 January 2010 £'000
Balance brought forward	(1,475)	(1,475)
Debit / Credit to income statement	1,475	(1,475)
Balance carried forward	-	(1,475)

The deferred tax asset recognised above related entirely to the derivative financial instruments in note 13, which were cancelled in the period

16. Share capital

	1 January 2011 £'000	2 January 2010 £'000
Authorised 1,000 ordinary shares of £1 each	1	1
Issued and fully paid 1 ordinary share of £1	-	-

The Company has one class of ordinary shares, which carry no right to fixed income

Bakkavör Estates Limited

Notes to the financial statements (continued) 52 weeks ended 1 January 2011

17. Notes to the cash flow statement

	52 weeks ended 1 January 2011 £'000	74 weeks ended 2 January 2010 £'000
Operating profit for the period	3,658	4,115
Operating cash flows before movements in working capital		
Increase in receivables	(2,281)	(11)
(Decrease)/Increase in payables	(5)	2,229
Cash generated by operations	1,372	6,333
Depreciation of property, plant and equipment	3,083	3,853
Interest paid	(2,538)	(6,168)
Net cash from operating activities	1,917	4,018

Cash and cash equivalents (which are presented as a single class of assets on the face of the statement of financial position) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less

18. Contingent liabilities

There were no legal claims or potential claims against the Company at the periods ended 1 January 2011 and 2 January 2010

19. Events after the statement of financial position date

On 10 January 2011 the Company made a final payment of £21.3 million to fully repay the bank loans outstanding

On the 7 February 2011, the Group restructured and refinanced its main financing facilities. Bakkavör Finance (3) Ltd, a newly incorporated subsidiary of Bakkavör Holdings Limited became the Company's immediate parent company

On 23rd March 2011 the Government announced that the main rate of Corporation Tax rate would reduce to 26% with effect from 1 April 2011, with subsequent 1% reductions per annum to reach 23% with effect from 1 April 2014. These tax rate reductions had not been substantively enacted at the balance sheet date and therefore have not been reflected in the financial statements. The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted

Bakkavör Estates Limited

Notes to the financial statements (continued) 52 weeks ended 1 January 2011

20. Related party transactions

Transactions

During the period, the Company entered into the following transactions with related parties

	Amounts owed to related parties	Amounts owed by related parties	Amounts owed to related parties	Amounts owed by related parties
	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Bakkavör Foods Limited	-	2,292	1,084	11
Bakkavör London Limited	27,637	-	-	-
Bakkavör Holdings Limited	12,192	-	11,400	-

The amounts outstanding include group relief, funding payments and recharges and are unsecured. No guarantees have been given or received. All balances are payable/receivable within one year, are held at amortised cost and are denominated in sterling.

21. Controlling party

The Company's ultimate parent company and ultimate controlling party is Bakkavör Group ehf, a company registered in Iceland. The largest group in which the results of the Company are consolidated is that headed by Bakkavör Group hf. It has included the company in its Group financial statements, copies of which are available from Tjarnargata 35, 101 Reyjavik, Iceland.

Bakkavör Holdings Limited is the immediate parent company during the period and up to and including 7 February 2011 when Bakkavor Finance (3) Ltd became its immediate parent company.

The smallest group into which the accounts are consolidated is Bakkavor Holdings Limited, copies of the financial statements of Bakkavor Holdings Limited are available from West Marsh Road, Spalding, Lincolnshire, PE11 2BB, United Kingdom.