Potential scope for acquisitive growth

Bakkavör’s 2006 operations were very successful, with record profits every quarter. Management has mapped out the route they intend the company to follow, and we expect a continuing fine performance in 2007 and 2008. There are few signs of falling consumption in main product classes.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues (GBP millions)</th>
<th>EBITDA</th>
<th>EBITDA%</th>
<th>EBIT</th>
<th>EBIT%</th>
<th>After-tax profit</th>
<th>EPS (12M)</th>
<th>EV/EBITDA (12M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1,219.2</td>
<td>147.8</td>
<td>12.1%</td>
<td>113.9</td>
<td>9.3%</td>
<td>68.2</td>
<td>3.40</td>
<td>12.2</td>
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<tr>
<td>2007E</td>
<td>1,357.6</td>
<td>169.6</td>
<td>12.5%</td>
<td>129.4</td>
<td>9.5%</td>
<td>59.5</td>
<td>2.76</td>
<td>15.0</td>
</tr>
<tr>
<td>2008E</td>
<td>1,479.8</td>
<td>186.3</td>
<td>12.6%</td>
<td>144.4</td>
<td>9.8%</td>
<td>70.2</td>
<td>3.35</td>
<td>15.0</td>
</tr>
<tr>
<td>Q1 2006</td>
<td>258.6</td>
<td>27.3</td>
<td>10.6%</td>
<td>18.5</td>
<td>7.2%</td>
<td>6.0</td>
<td>0.29</td>
<td>15.0</td>
</tr>
<tr>
<td>Q2 2006</td>
<td>298.5</td>
<td>40.7</td>
<td>13.6%</td>
<td>32.8</td>
<td>11.0%</td>
<td>14.2</td>
<td>0.67</td>
<td>15.0</td>
</tr>
<tr>
<td>Q3 2006</td>
<td>332.9</td>
<td>40.4</td>
<td>12.1%</td>
<td>32.0</td>
<td>9.6%</td>
<td>15.2</td>
<td>0.71</td>
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<td>Q4 2006</td>
<td>329.2</td>
<td>38.3</td>
<td>11.9%</td>
<td>30.7</td>
<td>9.3%</td>
<td>32.7</td>
<td>1.53</td>
<td>15.0</td>
</tr>
<tr>
<td>Q1 2007</td>
<td>288.3</td>
<td>31.9</td>
<td>11.1%</td>
<td>21.3</td>
<td>7.4%</td>
<td>7.9</td>
<td>0.37</td>
<td>15.0</td>
</tr>
</tbody>
</table>

Source: Landsbanki, Bakkavör Group.

- **Growth continues**
  We estimate Q1 income of GBP 288.5 m, or equivalent to an 11.6% increase YoY. Part of this is due to takeovers in 2006: last April Bakkavör acquired UK dessert manufacturer Laurence Patisseries and chilled bread producer New Primebake, followed up by the acquisition of dessert manufacturer Rye Valle Patisseries and ready-meal producer Fresh Cook in November.

  Bakkavör’s has grown energetically in recent years. In 2006 the company achieved its goal of growing faster than the UK market for fresh ready-to-eat foods, as its sales rose by 8.6% while the market grew by 6.6%. Growth in its fresh produce sales was also more than double that of the market, or 8.5% as opposed to 4.1%.

  Bakkavör’s strategy for the year 2007 is to continue to grow rapidly, with emphasis on internal as well as external growth. It should be pointed out that management will move that the company’s AGM on 23 March approve a motion to increase share capital by as much as ISK 2 bn nominal value. This would mean doubling its current capital, and if approved, will clearly ensure the company considerable scope for acquisitive growth.

- **Q1 generally least impressive**
  Bakkavör’s target is an EBITDA ratio of 12-14% on an annualised basis. We forecast Q1 EBITDA will be in the area of GBP 31.9 m, or 11.1% as a ratio of turnover. Although this is slightly below the long-term target, seasonality in Bakkavör’s operations means Q1 performance is generally the poorest quarter of the year.

- **Recommend buy and overweighting**
  Our valuation of Bakkavör gives a share price of 68.7, and a 12M target price of 75.8. The closing price for Bakkavör on 21 March was 64.5. The company’s shares have risen by 3.2% Ytd, while the ICEX-15 index has risen by 16.1%. We recommend that investors buy shares in the company and overweight them in well-diversified portfolios reflecting the Icelandic equity market.
Company Profile

Bakkavör Group is the UK's leading provider of fresh prepared foods and produce. The company operates 46 factories and employs 16,000 people in seven countries, manufacture over 4,700 products in 17 product categories.

Events Calendar

AGM 23.03.2007
Exista B.V. 37.0%
Lydur Gudmundsson, Chairman
Company Insight 16/01/2007

Q1 Earnings 26.03.2007
Pension Fund of Commerce 6.4%
Lydur Aradottir, CFO
In Focus 16/01/2007

Q2 Earnings 26.07.2007
Gildi - Pension Fund 5.2%
In Focus 16/01/2007

Q3 Earnings 25.10.2007
First Island Trustees Ltd. 3.8%

Q4 Earnings 31.1.2008
Antoniou P. Yerolemou 3.5%

P&L (GBPm), Dec. 31 2006 2007E 2008E 2009E
Sales 1,219.2 1,357.6 1,479.7 1,598.1
EBITDA 147.8 169.6 186.3 204.4
Depreciation & provision -38.8 -40.2 -42.0 -44.3
EBIT bef. except. 109.0 129.4 144.4 160.2
Exceptionals 0.0 0.0 0.0 0.0
Reported EBIT afl. except. 109.0 129.4 144.4 160.2
Associates (pre-tax) -0.3 0.6 0.6 0.7
Financial income -47.4 -47.3 -45.5 -43.8
Profit bef. tax & extr. 61.6 82.0 98.8 116.4
Extraordinaries 20.0 0.0 0.0 0.0
Profit before tax 81.6 82.0 98.8 116.4
Taxes -15.2 -22.6 -28.7 -34.9
Tax rate (%) 24.7% 27.5% 29.0% 30.0%
Minority 0.6 0.0 0.0 0.0
Reported EBIT 82.2 82.0 98.8 116.4
Reported EBIT after tax 65.8 59.5 70.2 81.5
Adjusted earnings (group) 65.8 59.5 70.2 81.5

Balance Sheet (GBPm), Dec. 31 2006 2007E 2008E 2009E
Cash and equivalents 39.7 67.9 74.0 79.9
Net working capital -98.2 -39.1 -28.6 -16.8
Net working capital/sales -8.1% -2.9% -1.9% -1.1%
Fixed assets 1,028.9 1,042.5 1,060.2 1,080.9
o/w tangible assets 303.8 318.3 336.9 358.5
o/w int. assets (incl. GW) 713.9 713.0 712.2 711.3
o/w financial assets 1.4 1.4 1.4 1.4
Capital employed 919.5 992.3 1,020.5 1,053.0
Total assets 1,325.8 1,396.9 1,446.4 1,498.0
Net debt/(net cash) 675.8 686.9 640.5 597.7
Net debt/equity (%) 279.8% 227.6% 170.8% 133.1%
Net debt/EBITDA 4.6 4.0 3.4 2.9
Net debt/cap. employed 73.5% 69.2% 62.8% 56.8%
Shareholders’ equity 241.4 301.6 374.9 448.9
Equity/total assets (%) 18.2% 21.6% 25.9% 30.0%
ROCE (%) 13.0% 13.5% 14.3% 15.4%
ROE (%) 35.7% 21.9% 20.7% 19.8%

Trends & Margins (%) 2006 2007E 2008E 2009E
Sales growth 68.8% 11.4% 9.0% 8.0%
EBITDA margin 12.1% 12.5% 12.6% 12.8%
EBITDA growth 71.7% 14.8% 9.9% 9.7%
EBIT bef. except. margin 8.9% 9.5% 9.8% 10.0%
EBIT bef. except. growth 65.5% 18.7% 11.6% 10.9%
Profit bef. tax & extr. margin 6.0% 6.7% 7.3%
Profit bef. tax & extr. growth 64.0% 33.1% 20.5% 17.8%
Profit before tax 5.4% 4.4% 4.7% 5.1%
Taxes 15.2 22.6 -3.7 -34.9
EBIT bef. tax & extr. 81.6 82.0 98.8 116.4
EBIT before tax 65.8 59.5 70.2 81.5
Adjusted earnings (group) 65.8 59.5 70.2 81.5

Cash-Flow Statement (GBPm) 2006 2007E 2008E 2009E
Cash-flow 113.7 107.0 118.3 132.0
Change in WCR -23.9 -93.2 -19.0 -19.9
Operating Cash-flow 89.8 13.8 99.3 112.1
Operating CF/sales (%) 7.4% 10.6% 7.0%
Capex 39.9 53.9 59.7 65.0
Capex/sales (%) 3.3% 4.0% 4.1%
Cash-flow/capex (%) 285.2% 198.6% 203.1%
FCF/sales (%) 4.10% -2.95% 2.68% 2.95%
Disposals 0.0 0.0 0.0 0.0
Financial invest. 0.0 0.0 0.0 0.0
Buy-Backs 0.0 0.0 0.0 0.0
Dividends 70.8 30.1 14.5 14.5
Dividend pay-out -1.3% -1.1% 14.5% na
Equity issue 0.0 0.0 0.0 0.0
Others 0.0 0.0 0.0 0.0
Net debt increase (decrease) 20.8 -30.2 -30.2 -30.2

Geographical Sales Split (%) 2006 2007E 2008E 2009E
United Kingdom 92.1%
Continental Europe 7.9%

Valuation

2006 2007E 2008E 2009E
P/E 12.2 17.7 15.0 12.9
P/Book Value 1.9 1.7 1.4 1.2
P/CF 6.8 8.9 7.5 6.5
FCF yield 5.6% -3.8% 3.8% 4.5%
EV/Sales 1.28 1.27 1.14 1.03
EV/EBITDA 10.6 10.2 9.0 8.0
EV/EBIT 14.4 13.4 11.7 10.2
EV/Capital employed 1.9 1.8 1.7 1.6
Dividend yield 0.9% 0.6% 0.7% 0.9%

2005 Divisional Split

Sales (m) EBITDA (m) Mgn
Hot food 340,199.0 na na
Cold food 267,386.0 na na
Traded prod. and Contin. Europe 114,480.0 na na

Price Market Cap Float Av. Vol. Traded ('000) Bloomberg Reuters
ISK139.2bn 55% 2,799.0 BAKK IR BAKK.IC
ISK64.5 ISK139.2bn 55% 2,799.0 BAKK IR BAKK.IC
Disclosure Checklist - Potential Conflict of Interests

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<th>Stock</th>
<th>ISIN</th>
<th>Disclosure (See Below)</th>
<th>Currency</th>
<th>Price</th>
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<td>ISK</td>
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Source: Factset closing prices of 21/03/2007

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Rating Ratio Kepler Equities Q4 2006

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<tr>
<th>Rating Breakdown</th>
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<th>B</th>
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<tbody>
<tr>
<td>Buy</td>
<td>60.9%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Hold</td>
<td>9.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Reduce</td>
<td>26.9%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Not Rated/Under Review/Accept Offer</td>
<td>2.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>0.0%</td>
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Source: Kepler Equities

Rating Ratio Landsbanki Q4 2006

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<th>Rating Breakdown</th>
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<th>B</th>
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<tbody>
<tr>
<td>Buy</td>
<td>54.3%</td>
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<tr>
<td>Hold</td>
<td>13.9%</td>
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<tr>
<td>Reduce</td>
<td>14.9%</td>
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Source: Landsbanki

Rating Ratio Merrion Stockbrokers Q4 2006

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<tr>
<td>Buy</td>
<td>45.0%</td>
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<td>Hold</td>
<td>35.0%</td>
<td>0.0%</td>
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<tr>
<td>Reduce</td>
<td>15.0%</td>
<td>0.0%</td>
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<td>Not Rated/Under Review/Accept Offer</td>
<td>5.0%</td>
<td>0.0%</td>
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<td>Total</td>
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<td>0.0%</td>
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Source: Merrion Stockbrokers Limited

Rating Ratio Teather & Greenwood Q4 2006

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<td>Hold</td>
<td>27.0%</td>
<td>12.0%</td>
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<tr>
<td>Reduce</td>
<td>11.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Not Rated/Under Review/Accept Offer</td>
<td>2.0%</td>
<td>4%</td>
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<tr>
<td>Total</td>
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Source: Teather & Greenwood Limited

Regulators

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<tr>
<th>Location</th>
<th>Regulator</th>
<th>Abbreviation</th>
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<td>Autorité des Marchés Financiers</td>
<td>AMF</td>
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<td>Kepler Equities España</td>
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<td>Commissione Nazionate per le Società e la Borsa</td>
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<td>Swiss Federal Banking Commission</td>
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<td>The Financial Services Authority</td>
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<td>The Irish Financial Services Regulatory Authority</td>
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Source: Kepler Equities, Teather & Greenwood Limited, Merrion Stockbrokers Limited and Landsbanki

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March 22, 2007

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