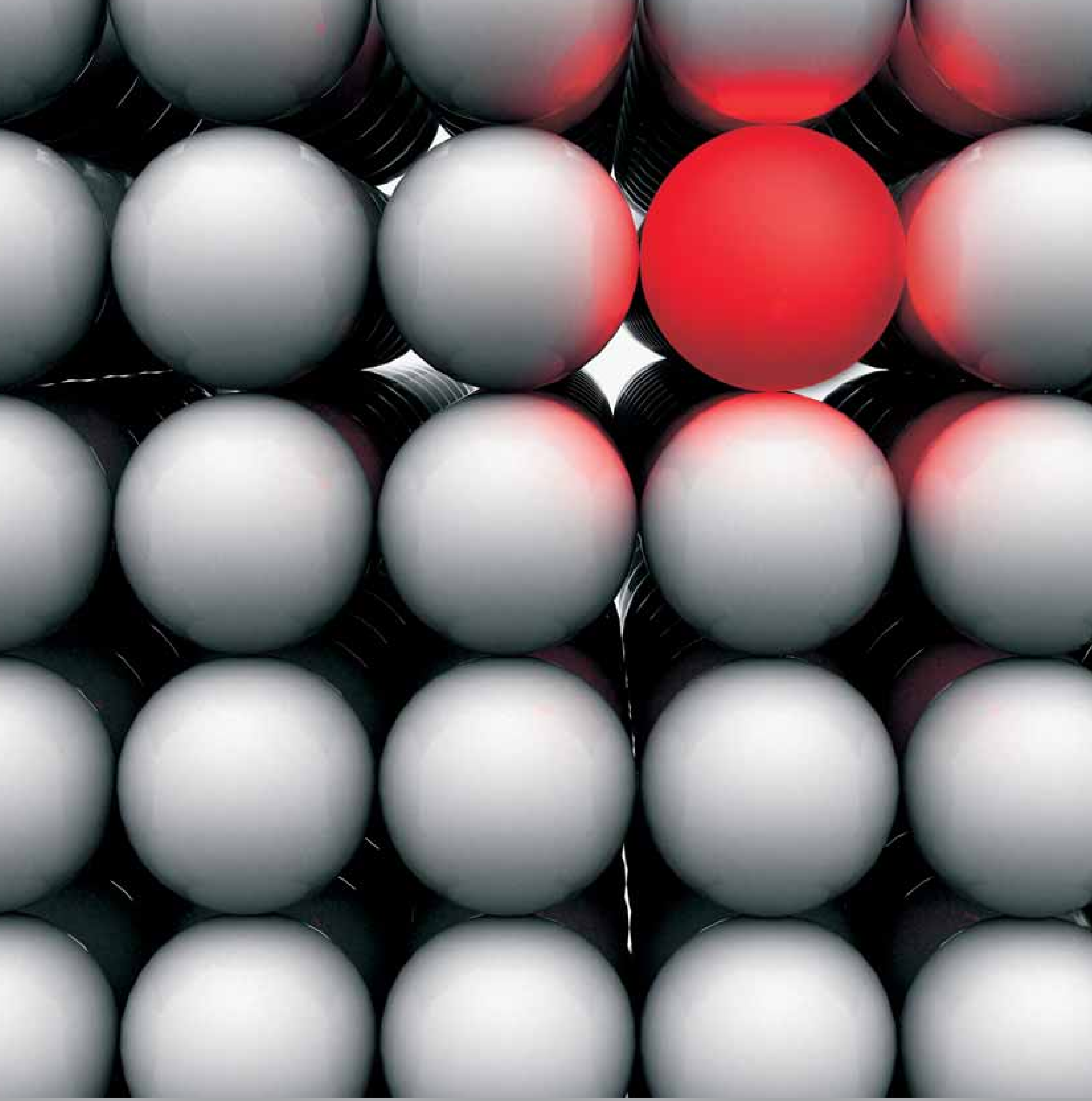

ANNUAL REPORT 2006

marel
food systems

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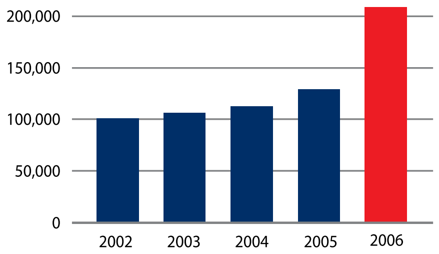
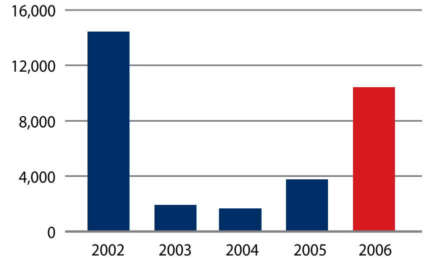
Marel Food Systems in figures

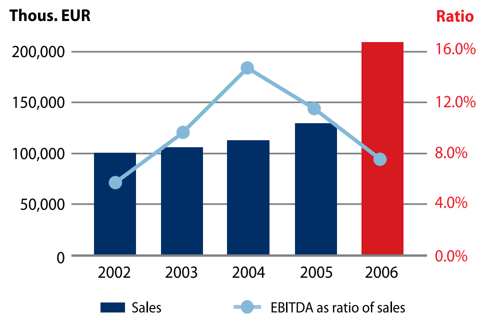
Sales in thous. EUR



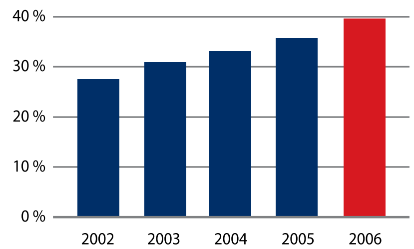
Purchase of property, plant and equipment in thous. EUR



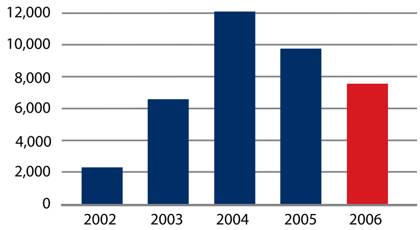
Operating profit before depreciation, EBITDA as a percentage of sales



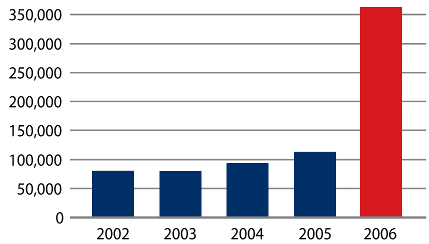
Equity ratio

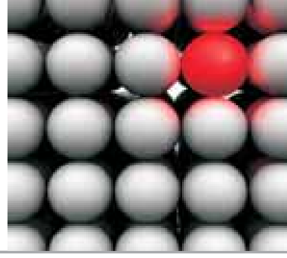


Profit from operation in thous. EUR



Total assets in thous. EUR





Marel Food Systems in brief

Marel Food Systems thrives on imagination and ingenuity. The company uses these elements to innovate solutions for all food processors, which then directly and positively affect the quality and value of fish, meat, poultry, cheese and prepared food products around the world.

Marel Food Systems began putting innovation to work early in the 20th century by introducing equipment that improved product utilization. In the 1980s, a transformation occurred when the company harnessed computer technology to develop intelligent graders and scales that revolutionized food processing. Since then it has grown into an industry leader by developing an extensive mix of high-tech processing equipment to fit current, emerging and projected needs.

Cutting edge equipment and software components created and serviced by Marel Food Systems help food processors of all sizes, in all markets, to operate at peak productivity. From harvesting raw materials to packaging case-ready products – from standardized stand-alone units to all inclusive custom-designed turnkey solutions – Marel Food Systems effectively and significantly enhances the overall value of food.

The company's internationally known brand names – Marel, Carnitech, AEW Delford and Scanvaegt – along with a global network of subsidiaries and sales & service agencies, have become a benchmark for consistent reliability and service.

New corporate identity

Marel has a new corporate identity, Marel Food Systems. An international, market-leading company needs one unified front and one image. Integrating into one name and one policy is a step forward that makes the best use of all the companies' resources. The change is expected to grant better results, less costs and fewer complications; more value and better service to customers, and better interaction and economic benefits within the value-chain.

Marel Food Systems' local roots, cultures and product brands will continue to exist, but seizing this great opportunity to build a stronger company will undoubtedly bring more value to customers, staff and shareholders alike.

marel food systems

marel MAREL FOOD SYSTEMS

carnitech MAREL FOOD SYSTEMS

scanvaegt MAREL FOOD SYSTEMS

aew delford MAREL FOOD SYSTEMS

Marel Food Systems worldwide

Marel Food Systems consists of four main segments that are complementary to each other: the parent company Marel hf in Iceland, Carnitech A/S in Denmark, AEW Delford Systems Ltd in the UK and Scanvaegt International A/S in Denmark. Together the brands supply a complete range of processing equipment to all sectors of the food processing industry.

Marel Food Systems is a leader in its field with subsidiaries in 22 countries. Most of the company's products are manufactured in Iceland, Denmark, and Slovakia with smaller production facilities in Singapore and Brazil. In addition, the company operates a network of 60 agents and distributors in about 40 countries that market, sell and service the company's products around the world. Over three-quarters of overall sales are achieved through subsidiaries.

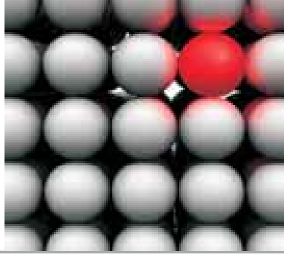
***4** main brands*

*Production in **5** countries*

*Subsidiaries in **22** countries*

*Network of **60** agents and distributors covering **40** countries*

marel MAREL FOOD SYSTEMS carnitech MAREL FOOD SYSTEMS scanvaegt MAREL FOOD SYSTEMS aew delford MAREL FOOD SYSTEMS

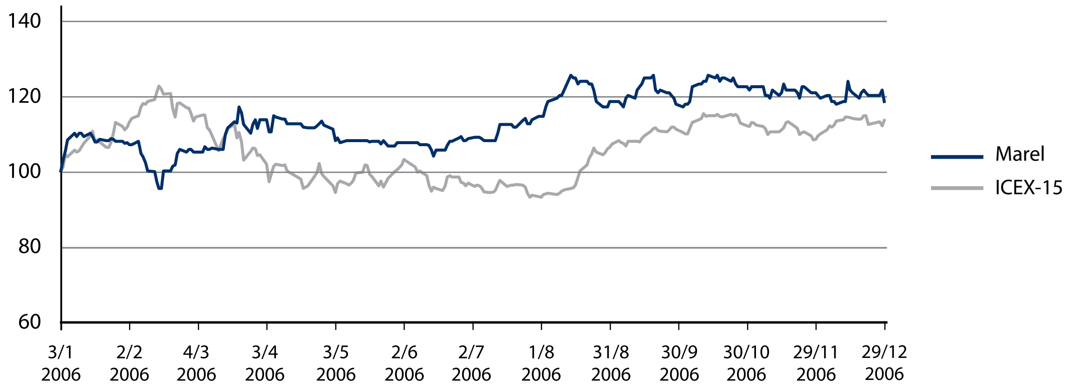


Marel shares

Share performance

Marel shares (Symbol: MARL) are listed on the OMX Nordic Exchange and are included in the ICEX-15 (the 15 largest companies by market capitalization listed on the ICEX) and ICEX MAIN indices. The share price rose from ISK 65.0 at year's end 2005 to ISK 77.0 at year's end 2006, an increase of 18.5%. During the same period the ICEX-15 index increased by 15.4%. The year's highest end-of-day share price was ISK 81.5 and the lowest end-of-day share price was ISK 62.0.

MAREL SHARE PRICE COMPARED TO THE ICEX-15 INDEX



TOP 10 SHAREHOLDERS AS OF 31. OF DECEMBER 2006

Name	No. Of shares	%
Eyrir Invest ehf	108,675,840	29.61
Landsbanki Íslands hf,aðalstöðv	87,942,955	23.96
Grundtvig Invest ApS	52,200,943	14.22
Lífeyrissjóðir Bankastræti 7	8,457,835	2.30
Lífeyrissjóður verslunarmanna	6,752,105	1.84
Ingunn Sigurðardóttir	5,437,733	1.48
Helga Sigurðardóttir	5,348,749	1.46
Súsanna Sigurðardóttir	5,308,774	1.45
Egill Vilhjálmur Sigurðsson	4,278,999	1.17
Eignarhaldsfélag Hörpu ehf	4,195,671	1.14
Total	288,599,604	78.62
Others	78,481,128	21.38
Registered share capital	367,080,732	100.00

Chairman's address

Marel Food Systems is a strongly financed and fast growing global company with Scandinavian roots. The company is listed on the OMX Nordic Exchange with a broad base of investors and a market value of approximately EUR 300 million at year-end 2006. Marel Food Systems' expansion in recent years has been based on profitable internal and external growth through the acquisitions of other companies operating in similar fields.

Marel Food Systems is at the forefront of developing and marketing high-tech applications for the international fish, meat and poultry industries. Marel Food Systems has also moved into the cheese, vegetable and convenience food business in general. By using Marel Food Systems' technology, customers have managed to increase productivity significantly through better utilization of raw material and manpower.

Marel Food Systems is well placed in a fast-growing market

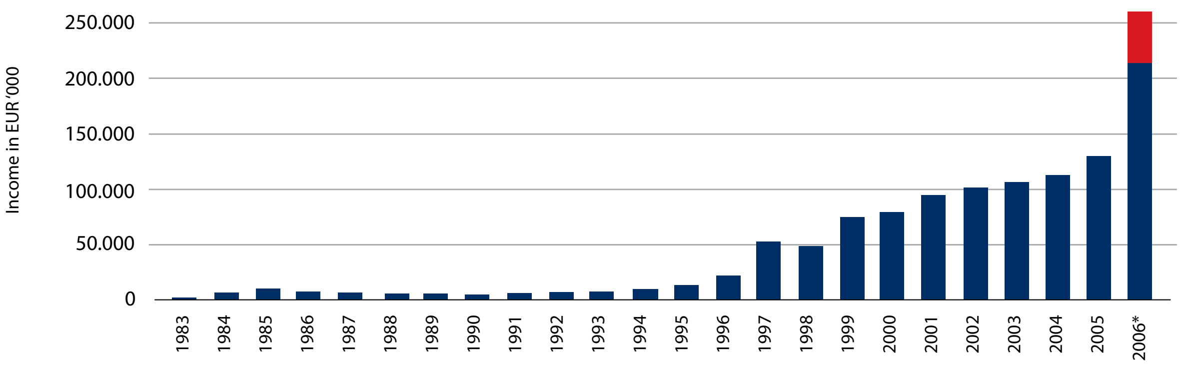
The industry in which Marel Food Systems operates is an interesting, fast-growing business driven by changes in consumer habits and geographical expansion. It has exceeded economic growth considerably in the last 10 years, and is expected to grow at the same rate of 5-6% annually for the next years. The industry is fragmented with no clear industry leader, as the largest players control less than 10% of the market.

Marel Food Systems has developed a dynamic sales and marketing operation, and provides customer services on all its markets. The company sells products to over 60 countries with a wide diversity of languages, cultures, operating practices and technological capabilities.

Growth strategy and execution

Marel Food Systems' strategy is clear and management is executing the strategy vigorously. Marel Food Systems is growing fast organically, and is now developing an extensive operation in Slovakia. Growth by acquisition is an important part of the strategy. At the AGM in the beginning of 2006, the company set ambitious growth targets; strategic acquisitions will be made that will expand Marel Food Systems' unique technological position and improve access to markets, enabling it to achieve a 15-20% market share compared to its estimated 4% market share in 2005.

TURNOVER 1983–2006



* Pro forma turnover due to acquisitions of AEW Delford UK and Scanvaegt DK

During 2006, the board and the management showed their determination in reaching these goals by acquiring two of Marel's main competitors, AEW Delford in the UK and Scanvaegt in Denmark, and thus doubled the revenues and the market share of the company.

Marel Food Systems is a strongly financed company with a broad base of investors

Marel Food Systems strengthened its capital base significantly in 2006 and finalized a public offering that broadened the strong shareholder base significantly. Additionally, Marel issued long-term bonds. Both the shares and the bonds are listed on the OMX Nordic Exchange. The financial strengths and back-up from financial markets will enable the company to reach its targets of global leadership faster. At year end, the total number of shareholders tripled to almost 3000, up from 1100 at the beginning of the year, and pension funds and other financially sound investors increased their shares in the company. In addition, the previous owner of Scanvaegt showed their belief in the company's bright prospects by taking Marel shares as a significant portion of the purchase price of Scanvaegt. After the equity increase and substantial purchase at market, Eyrir Invest is the leading investor with close to 30% of total shares.

OMX Nordic Exchange

At the beginning of 2007, the Icelandic Stock Exchange became part of the OMX joint market for Nordic and Baltic countries, considerably increasing the visibility and liquidity of Marel shares. This will also make it easier to compare the management and the added value of the companies with peer groups.

The board of Marel has decided to seek permission from the shareholders to convert the company's shares from ISK to EUR. This is a logical step forward as company accounts and base currency are already denominated in EUR and over 97% of the income is generated outside of Iceland, with EUR being the largest currency in the revenue stream. Trading in EUR will decrease the risk of holding the shares and make the shares more attractive to global investors.

Corporate governance

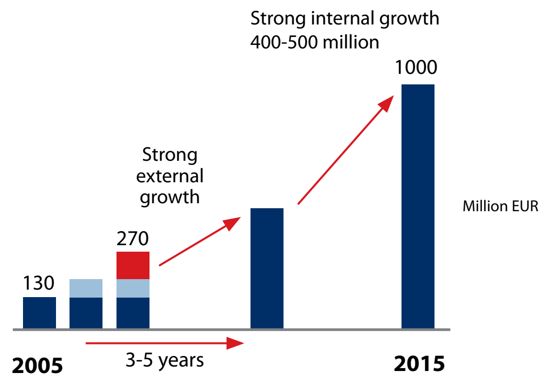
In 2005, the board of Marel approved corporate governance guidelines for the purpose of meeting the highest standards in relation to the stock market. The board has appointed two committees – an auditing committee and a compensation committee – to discuss and prepare matters between board meetings. The auditing committee has reviewed the internal and external audit of the company, and held meetings with the company's statutory auditors. A stock option plan was recently approved for a wide group of employees, which is intended to intertwine their interests with those of company shareholders. The stock option plan was a cooperative effort between the compensation committee and the CEO, and was later approved by the board.

Outlook

Marel Food Systems is leading the consolidation in the food system industry. Today, consolidation is mainly between companies with headquarters in Europe and North America and with main focus on those markets. A stronger and larger company will have a greater ability to take advantage of the development of new markets in Eastern Europe, Asia and South America and therefore grow faster than anticipated.

The year of 2006 was a year of great transformation, and in coming months it will be necessary to utilize fully the competitive edge and get back on the "growth path" with double digit growth as has been seen in the past, and profitability in excess of 10% EBIT. By the year 2015, Marel Food Systems' goal is to lead the industry with annual revenues in excess of 1 billion euros and profitability well above industry standards.

Árni Oddur Þórðarson
Chairman of the Board



CEO's Address

The year 2006 was an eventful one for Marel. At the beginning of the year, the company set the ambitious goal of tripling its size over the next three to five years. The main premises for this policy are the demands of the company's customers for total solutions and increased product development, while at the same time increasing the company's value for shareholders with increased economy of scale. Subsequently, Marel purchased two companies: the UK company AEW Delford in April and the Danish company Scanvaegt International in August. Following the merger of the companies, Marel has strengthened its position as a leading company in the development and sales of high-tech equipment for the fish, meat, and poultry industries.

Operation

Considerable external growth put its mark on 2006, with turnover increasing 62% over the course of the year. The year's activities were characterized by the extensive integration process of the operations of Marel, Scanvaegt, AEW Delford, and Carnitech, with associated one-time expenses. Operating profits (EBIT), therefore, decreased during the year, although the company will start to reap the benefits of the integration in the latter part of 2007 and fully in 2008.

Markets

The company's key markets have been North America and Europe, and in 2006, the company continued to reinforce operations in these markets. The merger with Scanvaegt has significantly increased the company's presence in South America. Efforts were also focused on market expansion by increasing operations in key growth markets such as Eastern Europe, Asia, and Australia, where excellent opportunities exist for the company's solutions.

In 2006, the company secured major contracts with many of the largest fish, meat, and poultry processors in the world. These large contracts for processing solutions are a result of long-term sales and marketing efforts that will support the company's organic growth in the future.

Customers

As one of the leading manufacturers of processing equipment, Marel Food Systems has provided solutions to all major producers over the last decades. The company constantly monitors current and emerging trends and requirements within each industry sector and continues to emphasize cooperation with customers when developing new solutions.

Our customers are operating in competitive environments where demand for food safety and traceability, along with performance demands and changing consumer behavior, constantly create new challenges. It is the company's goal to support its customers in achieving better yield, increase productivity and better manage their raw material processing. Our focus is on maximizing profits by increasing yield, throughput, and efficiency.

Product development

One of the principal factors in a successful operation is progressive product development. Marel Food Systems annually invests 6-7% of revenues in R&D to strengthen its leading position on the market and fulfill customer needs. Product standardization continued in 2006, and proved to be a successful factor in increasing efficiency, lowering production costs, and strengthening the company's competitive position.

Integration activities

The acquisition of AEW Delford in April and Scanvaegt in August of 2006 has doubled the company's annual turnover on a pro forma basis. The companies have very similar product ranges and operate on the same markets. It is therefore vital to integrate operations with the aim of improving and coordinating customer services and clarifying employee positions, while improving the performance of the companies. Major integration activities have been embarked on within the company with the participation of key employees from all companies. The goal is to develop the strengths of each company and thereby support Marel Food Systems' future growth. Since the operations of the companies are similar, integration will inevitably lead to changes in individual companies, with associated one-time expenses.

The principal goals of integration work within Marel Food Systems are to ensure that everyone knows they work for the same company, to double the number of new products with unchanged investment in product development and to improve customer service while expanding revenue potential. At the same time Marel Food Systems will focus on laying the foundation for strong inner growth and creating an interesting and challenging work environment for all employees.

Share performance

One of the main corporate goals is to maximize the company's share value. An 18.5% increase in share value occurred in 2006, on top of a 32.0% increase in 2005. The company's share turnover rate on the Iceland Stock Exchange in 2006 was 27.9%. Market-making is provided by Landsbankinn, which has led to a lower spread and more active trading. The average end of day spread in 2006 was 0.9%. Marel Food Systems paid a dividend of ISK 0.2 per share in 2006.

Prospects

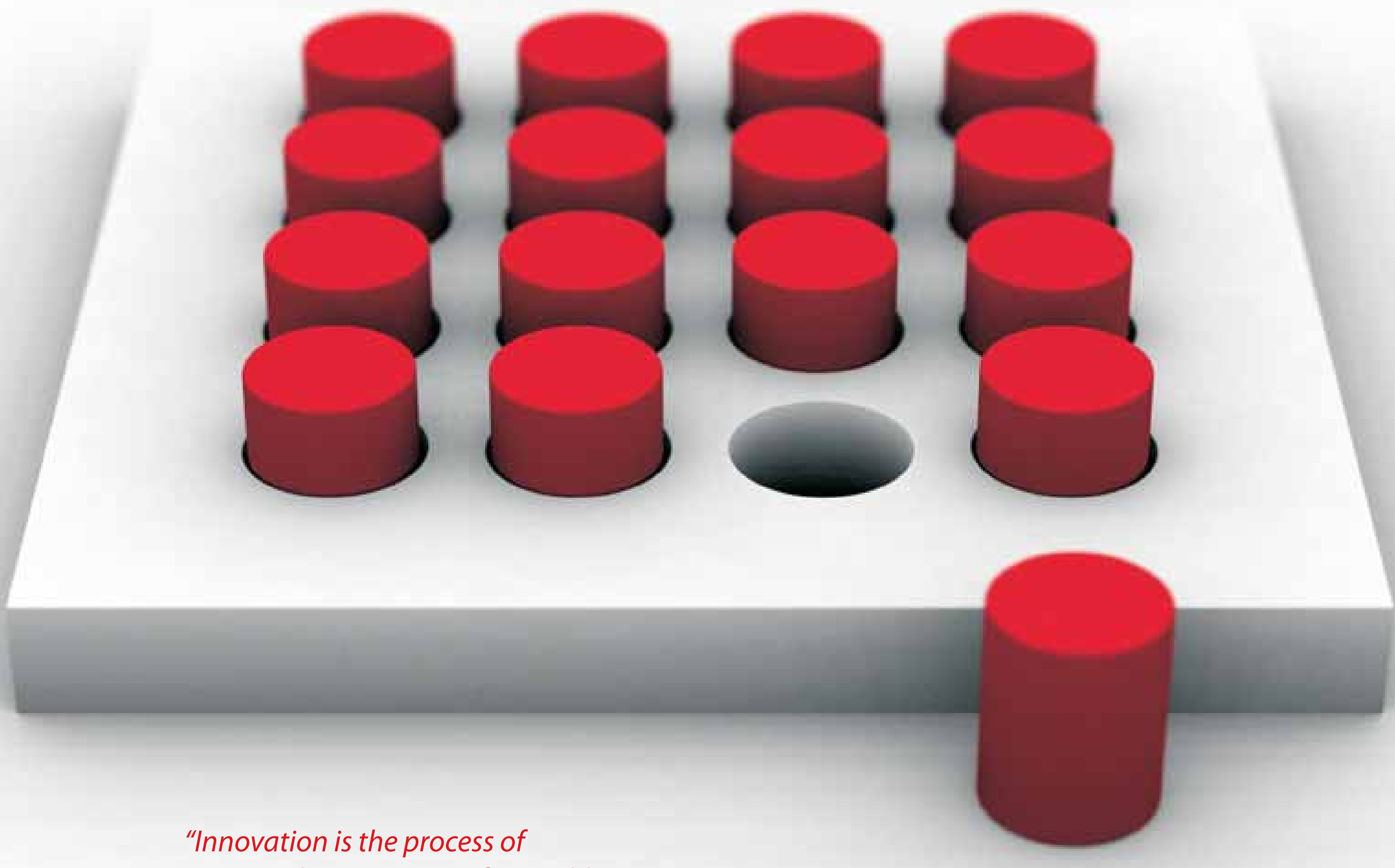
Intensive product development and the ongoing work over the years to bolster the company's marketing operations have placed the company in a strong competitive position. Prospects on the company's primary markets are currently satisfactory.

Prospects for the company's operations are good. The consolidation of Marel, Carnitech, AEW Delford, and Scanvaegt will create a company with a broad product range, a strong marketing network, an outstanding service network, and a unique position in various product categories. The economy of scale of the new company is considerable, as are its opportunities for increased sales and cross-selling.

In the short term – particularly during the first half of 2007 – one-time expenses resulting from the integration of the companies will impact the company's performance. It is anticipated that the synergistic effect will start to appear in increased operating profits in 2007 and be fully realized in 2008.

Dr. Hörður Arnarson
Chief Executive Officer

To Shareholders



"Innovation is the process of turning ideas into manufacturable and marketable form."

Watts Humprey

CEO and Board of Directors

Chief Executive Officer

Dr. Hörður Arnarson
Education: Engineering, Ph.D., 1990, Technical University of Denmark. Electronic Engineering, B.Sc., 1985, University of Iceland.
Holdings in Marel, including those of financially related parties: 1,669,009 shares.

Hörður Arnarson joined Marel hf in 1985, two years after the company was founded, as a project manager. In 1994, he became Director of Product Development, and Director of Production in 1998 until 1999 when he became the CEO of Marel and now Marel Food Systems. Hörður is vice chairman of the board of the Association of Icelandic Industries, and on the board of the Icelandic Chamber of Commerce.

Chairman of the Board

Árni Oddur Þórðarson
Education: MBA from IMD in Switzerland, 2004. Cand. Oecon, Business Administration from the University of Iceland, 1993.
Elected: 2005
Holdings in Marel, including those of financially related parties: 108,704,944 shares.

Árni Oddur is the CEO of Eyrir Invest, and has extensive experience working in the financial markets. Before co-founding Eyrir Invest he was head of Corporate Finance and Capital Markets at Búnaðarbanki Íslands, which later merged with Kaupthing Bank. Árni Oddur has been a director of Ölgerð Egils Skallagrímssonar ehf., since 2003, and on the advisory board of Artic Ventures, a high-tech fund in Stockholm, since 1999.

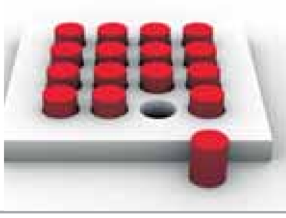
Board Members

Arnar Þór Másson
Education: Political Science with a M.Sc. in Comparative Politics from the London School of Economics and Political Science, 1997. BA in Political Science from the University of Iceland 1996. Currently studying Investment Management at Reykjavík University.
Elected: 2001
Holdings in Marel, including those of financially related parties: 20,342 shares.

Arnar has been a specialist at the Ministry of Finance for the past five years. Alongside his work at the ministry, Arnar is an adjunct in the Political Science Dept. at the University of Iceland. Arnar does not sit on the board of any other company than Marel. He was on the boards of Hjaltadalur Heating Utility sf. from April 2003 to November 2005, and the Weights and Measures Office from April 2003 until July 2005.

Friðrik Jóhannsson
Education: Business Administration from the University of Iceland, 1982. CPA 1987.
Elected: Alternate 1997-2004. Board member since 2004. Chairman of the Board from the AGM 2005 until October 2005.
Holdings in Marel, including those of financially related parties: 0 shares.

Friðrik became CEO of the Straumur-Burðarás Investment Bank hf. in June 2006. Previously, Friðrik was the CEO of Burðarás hf. from March 2004 until September 2005. Friðrik is the chairman and largest shareholder of TM Software hf., and a member of the Board in Cyntellect since April 2006. Friðrik is the Chairman of the Board of the Iceland Stock Exchange, Icelandic Securities Depository and Eignarhaldsfélag Verðbréfaþing hf. Friðrik has sat on the boards of the following companies: Iceland Genomic Ventures Holding, Alfesca hf., Þróunarfélag Íslands hf., Eimskipafélag Íslands ehf., Haraldur Böðvarsson og Co hf., Skagstrendingur hf., Flow Matrix Inc., Urður Verðandi Skuld hf., Og fjarskiptum hf.



Helgi Magnússon
Education: Business Administration from the University of Iceland, 1974. CPA 1975.
Elected: 2005
Holdings in Marel, including those of financially related parties: 4,366,426 shares.

Helgi is the largest owner, chairman of the board and CEO of Eignarhaldsfélag Hofgarða ehf., and Eignarhaldsfélags Hörpu ehf. Helgi is the chairman of Flügger Harpa Sjöfn ehf., chairman of the Federation of Icelandic Industries, member of the board of directors and the executive board of the Confederation of Icelandic Employers. Helgi is also on the board of Blue Lagoon hf., Icelandic Pension Fund and Skipasmíðastöðvar Njarðvíkur. Helgi has sat on the boards of the following companies: Íslandsbanki hf. (now Glitnir hf.), Lífeyrissjóðurinn Framsýn and VVÍB investment fund.

Margrét Jónsdóttir
Education: Business Administration from the University of Iceland, 1983, Master of Accounting and Auditing from the University of Iceland, 2006.
Elected: 2006
Holdings in Marel, including those of financially related parties: 85,243 shares.

Margrét is the CFO of Eyrir Invest ehf. Margrét was the director of the finance department at Edda Publishing hf. from December 2001 until October 2002. She was the director of finance at Kreditkort hf. from August 2000 until December 2001. She was also the Manager of accounts and planning at Fjárfestingarbanki atvinnulífsins hf. (FBA) from January 1998 until June 2000.

Alternates

Hanna Katrín Friðriksson. Elected: 2004. Education: BA in Philosophy and Economics from the University of Iceland, 1995, MBA University of California, 2001. Holdings in Marel, including those of financially related parties: 0 shares. Hanna Katrín became head of Organizational Development at Eimskip in 2005. Hanna Katrín was a department head at Reykjavík University from 2002 until 2005. Hanna Katrín sat on the board of Íslenska Útvarpsfélagið hf.

Þórður Magnússon. Elected: 2006. Education: Business Administration from the University of Iceland, 1974 MBA from the University of Minnesota, 1976. Holdings in Marel, including those of financially related parties: 108,683,047 shares. Þórður is the Chairman of Eyrir Invest ehf., which he founded in 2000 along with Árni Oddur, Chairman of Marel Food Systems. Before Þórður formed Eyrir Invest, he held the position of Director of Finance and Administration at Eimskip for over twenty years. Þórður sat on numerous boards in connection with his position at Eimskip. In addition to being chairman of Eyrir Invest and Marorka hf., Þórður sits on the board of Össur hf., Byko hf. and Kaupáss hf.

Dr. Hörður Arnarson, Friðrik Jóhannsson, Margrét Jónsdóttir, Arnar Þór Másson, Árni Oddur Þórðarson and Helgi Magnússon.

Organizational structure

Marel Food Systems consists of four main segments that are complementary to each other: the parent company Marel hf in Iceland, Carnitech A/S in Denmark, AEW Delford Systems Ltd in the UK and Scanvaegt International A/S in Denmark. Together the brands supply a complete range of processing equipment to all sectors of the food processing industry.

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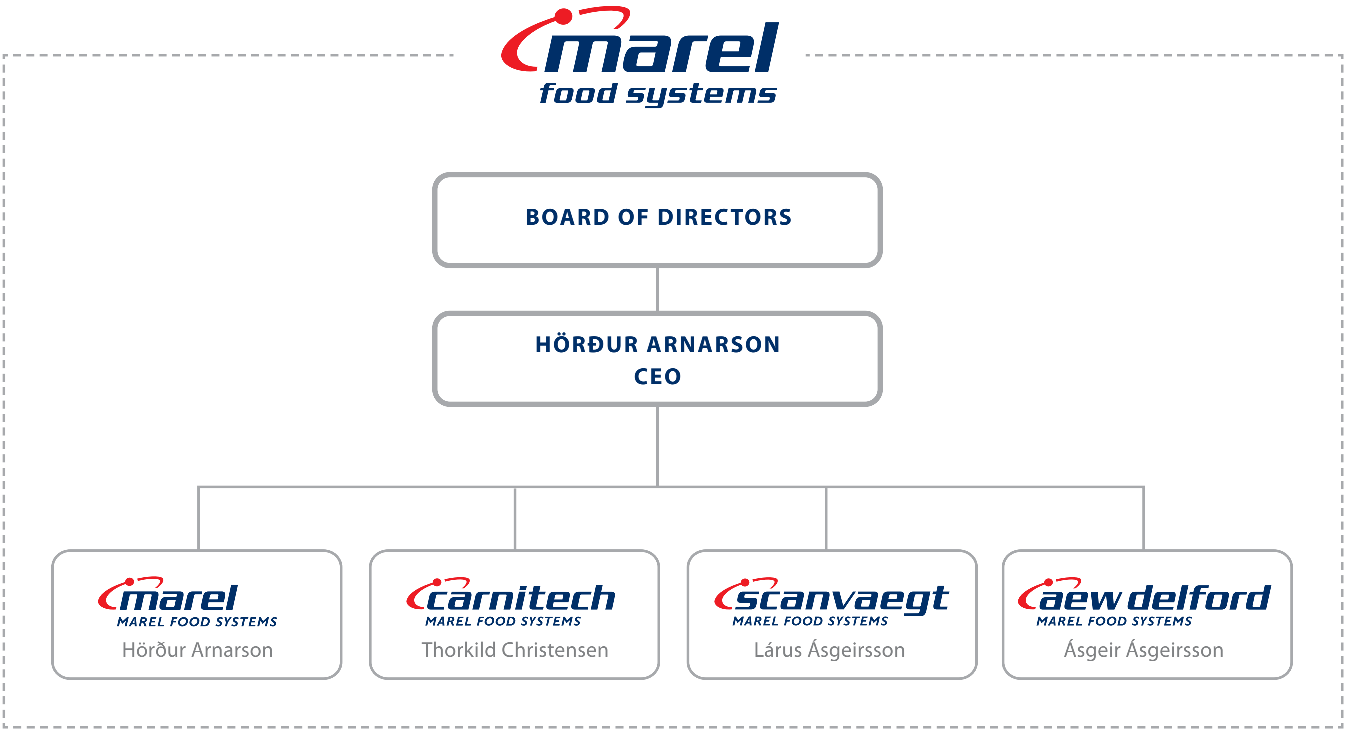
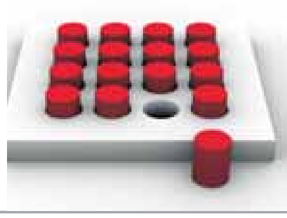




Corporate governance

Corporate governance at Marel Food Systems is determined by the company's Articles of Association and Rules of Procedure of the Board of Directors. These procedures and the activities of the board follow in all ways the guidelines concerning corporate governance issued by the Iceland Stock Exchange, Confederation of Icelandic Employers and Iceland Chamber of Commerce.

The company is managed by the shareholders meetings, the Board of Directors of the company and the Chief Executive Officer (CEO). Within Marel Food Systems' board are two working committees: the compensation committee and the auditing committee.

Members of the Compensation Committee are Arnar Þór Másson, Árni Oddur Þórðarson and Friðrik Jóhannsson. Its field of work involves negotiating wages and other benefits for the CEO and senior management, framing the company's wage policy including wage incentives and share option rights for company shares.

Members of the Auditing Committee are Friðrik Jóhannsson, Helgi Magnússon and Margrét Jónsdóttir. Its field of work includes monitoring Marel Food Systems' financial status, evaluating the company's internal control system and risk management system, evaluating management reporting on finances, evaluating whether laws and regulations are followed as well as evaluating the work of the company's statutory auditors.

Shareholders are bound, without specific undertaking on their part, to abide by the company's articles.

Shareholder rights

The supreme authority in all affairs of the company, within the limits established by the company's articles and statutory law, is in the hands of lawful shareholders meetings. At shareholders meetings each share carries one vote.

The Annual General Meeting (AGM) shall be announced with advertisements in newspapers and on the radio, at least one week prior to the meeting. The announcement shall be written and sent to those shareholders who have specifically requested it and are registered in the shareholder register. The same procedures apply when calling a shareholders meeting as for the AGM. A shareholder may authorize another person to act for him, and vote, by proxy. The right to sit at a shareholders meeting is given only to shareholders, and the company auditors and CEO, even if they are not shareholders. However, the board can invite specialists to individual meetings if their expertise or assistance is required. Shareholders are permitted to bring along consultants, but they do not have the right to address the meeting, make proposals, or vote.

The AGM shall be held before the end of May each year.

The board of directors and senior management

The board of directors comprises five members. They and two alternates shall be elected yearly at the AGM. Election of directors shall be by ballot if more candidates are proposed than the positions available. A new board for the company was elected at the company's AGM held on February 28, 2006. The board is elected for a term of one year. At the same meeting, a monthly payment to each board member for the next operating year of EUR 2000 was approved, and double that amount for the chairman.

The board chooses a chairman from among its members. The chairman takes the floor and calls the meeting to order. Meetings shall be held whenever he deems necessary. The chairman is required to call a directors' meeting at the request of a director or the CEO. Directors shall take the minutes of board meetings, and confirm them with their signatures.

The board is the highest authority in company matters relating to shareholders. Its primary responsibilities are the following:

1) To hire a Chief Executive Officer (CEO), determine his salary and benefits, establish his responsibilities, and arrange his discharge.
2) To make policy decisions regarding company operations.
3) To steadfastly and thoroughly monitor all aspects of company operations, and ensure that the infrastructure and operations are in good order. In particular, the board shall ensure that there is sufficient supervision with accounting and the management of the company's financial affairs.
4) To represent the company in matters pertaining to judicial and government issues.
5) To resolve other matters when deemed appropriate.

The board has the authority to obligate the company, for example hypothecate, with the signatures of a majority of board members.

The CEO is responsible for daily operations in accordance with those directives that he has been given by the board, or by the Articles of Association. Daily operations do not include matters that are irregular or of major significance. The CEO shall see that company accounts are entered in accordance with law and convention, and that company assets are handled in a reliable manner. The CEO hires and discharges all company employees. The CEO is obligated to abide by all board directives. He is required to provide the board and auditors with all information requested. A director may be the CEO. However, the same person may not be the CEO and the Chairman. The Board of Directors shall, in the Annual Report, make proposals regarding distribution of profits or balancing of loss.

No unusual business has been conducted between Marel Food Systems and its board. Board members do not have any buy or put options in the company.

No member of the Marel board has been convicted of fraud, gone bankrupt, been taken into receivership or been indicted.

A board member shall only act according to his own conviction, not to the instructions of those electing him. Immediately following the AGM each year, the board shall allocate responsibilities among themselves.

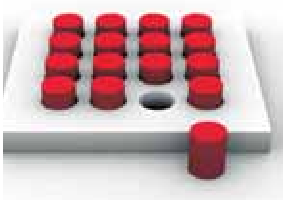
Auditors and accounting

An auditing firm shall be elected at the AGM for a term of one year. The auditor however, shall not be a member of the Board of Directors, CEO or an employee of the company. The auditor shall examine the company's annual accounts in accordance with generally accepted auditing standards, and shall for this purpose, inspect account records and other material relating to the operation and financial position of the company. The auditors shall at all times have access to all the books and documents of the company.

Marel's auditors are PricewaterhouseCoopers hf., on their behalf Þórir Ólafsson and Kristinn Freyr Kristinsson have audited and signed without reservation the company's consolidated financial statements for the year 2006. Ólafur Þór Jóhannesson and Þórir Ólafsson, audited and signed without reservation the company's consolidated financial statements for the years 2005 and 2004.

Insider information

The company complies with the rules of the Icelandic Financial Supervisory Authority in handling inside information and insider trading according to Act no.33/2003 on Securities Transactions from 4 December, 2006.



Risk management

Marel Food Systems' activities expose it to a variety of financial risks: market risk including foreign exchange risk and price risk, credit risk, liquidity risk, cash flow risk and fair value interest-rate risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the company's financial performance. The company uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out within the group where applicable under policies approved by the Board of Directors. The company will continue to improve its risk management guidelines even further in 2007.

Foreign exchange risk

The company operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to euros. Financial exposure is partly hedged within the company's general policy and within set limits. Entities in the company use forward contracts to manage their foreign exchange risk arising from future commercial transactions, recognized assets and liabilities. Translation risk arising from the company's financial currency is not hedged.

Credit risk

The company minimizes credit risk by monitoring credits granted to customers, and assigns collateral to cover potential claims. The company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and products are not delivered until payments are secured. The company has policies that limit the amount of credit exposure to any one financial institution.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the company aims to maintain flexibility in funding by keeping committed credit lines and current financial assets available.

Cash flow and fair value interest rate risk

The company's income and operating cash flows are substantially independent of changes in market interest rates. The interest rates of finance leases to which the company is lessor or lessee are fixed at the inception of the lease. These leases expose the company to fair value interest rate risk. The company's cash flow interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest rate risk. Borrowings issued at fixed rates expose the company to fair value interest rate risk.

The company manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The risk, measured as the potential increase in interest paid during the coming year of a defined move in interest rates, is monitored and evaluated regularly.

Insurance policies

The company maintains global and local insurance programs. The coverage comprises of property damage, business interruption, product liability, marine and transit and directors and officers liability. The company believes that its current insurance coverage is reasonable.

Corporate social responsibility

Responsible corporate behavior and community involvement are important principles in the operation of Marel Food Systems. The management and employees demonstrate support, commitment and participation in identifying and monitoring issues important to all stakeholders.

Marel Food Systems is committed to upholding best practices in all areas of operations to maintain the trust and confidence of all stakeholders in the business, including investors, employees, customers and suppliers as well as the local communities and environments.

The company supports the involvement of all the subsidiaries in implementing the company's strategy. While social responsibility actions and projects can differ from country to country, depending on local conditions, the basic principles remain the same. The objective is to meet the expectations of the communities as well as the customers.

The company's commitment to promote safety, accident prevention, and environmental preservation ensure compliance with corporate ethics as well as laws and regulations.

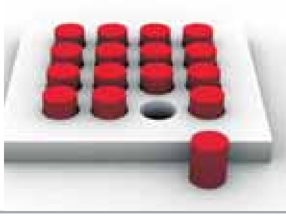
Marel Food Systems strives to forge long-term working relationships with its suppliers based on fairness and respect. The company fosters an environment of partnership commitment for cooperation on new product development in order to deliver the best solutions to its valuable end customer. The aim is to create a dynamic and creative environment with suppliers and customers to invent valuable solutions.

Supporting the scientific community

Marel Food Systems maintains strong ties with universities and research bodies to support innovation and excellence in science exploration and research. By applying financial resources as well as the knowledge and time of the employees, the company strives to increase the awareness of science and innovation in all walks of life and on all educational levels.

In 2006, Marel Food Systems continued to implement its long-term strategy of science support with several initiatives. Marel Food Systems works closely with local municipalities to support science teaching and coordination as well as supporting major innovation or science events. The main focus in 2006 was on younger innovators and science learners where the company became either main or co-sponsor of youth science projects. Long-term support to a children's science museum in Iceland and the sponsorship of a full-time teaching position at elementary level fall under this category.

The strategy is always based on close partnership with the parties involved and long-term cooperation. With its contributions Marel Food Systems strives to support and enrich innovation, science and mathematical education, as well as increase the awareness of the value of a strong scientific education in the communities where it operates.



Human resources

Marel Food Systems employs over 2000 people in 22 countries worldwide, up from about 1200 employees prior to the acquisition of AEW Delford and Scanvaegt in 2006. The largest number of employees, about 700, is located in Denmark.

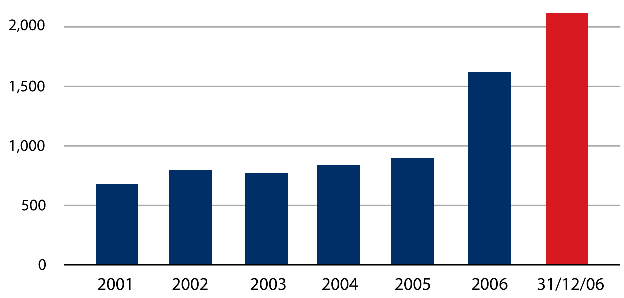
Marel Food Systems strategy is to create a good working environment for its employees that enables them to make the company vision their own. Constant innovation and originality are needed to maintain leadership within the company's field, and Marel Food Systems recognizes that the skills, education, curiosity and experience of employees are the most important resource. Motivated by the company culture of striving passionately to be the best, the highly qualified and dedicated employees are encouraged to focus their efforts on creativity, leadership, initiative, innovation and teamwork.

The company's further education and job development practices are supported by the operation of Marel Mentor, a continuing education program. Marel Mentor helps employees stay abreast of the latest developments in their fields, acquire new skills and maintain their levels of expertise in all areas of their work life.

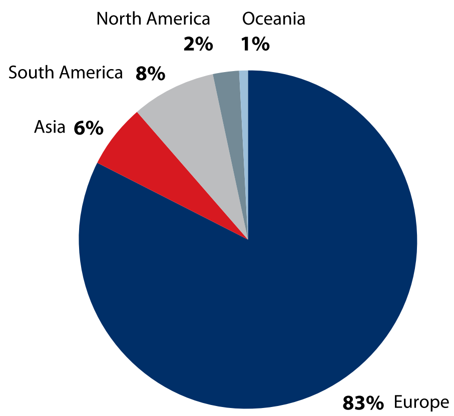
Integration strategy

Knowledge transfer between countries, regions and departments is a key factor in maintaining Marel Food Systems' global leadership position. Each national subsidiary has its own distinctive traditions and customs. While all employees are viewed as members of one company it is understood that different cultures have different ways of achieving best results. In the integration work Marel Food Systems will benefit most by implementing a strategy of creating a superior workplace that encourages creativity, leadership, teamwork and independent thinking. This opens up a myriad of possibilities for the company and its employees to grow and prosper simultaneously with a common vision.

Number of employees, average per year



Number of employees by continents at the end of year 2006



Shares and shareholders

Share performance

Marel shares (Symbol: MARL) are listed on the OMX Nordic Exchange and are included in the ICEX-15 (the 15 largest companies by market capitalization listed on the ICEX) and ICEX MAIN indices. The share price rose from ISK 65.0 at year's end 2005 to ISK 77.0 at year's end 2006, an increase of 18.5%. During the same period the ICEX-15 index increased by 15.5%. The year's highest end-of-day share price was ISK 81.5 and the lowest end-of-day share price was ISK 62.0.

Share capital

Following an approval at a shareholders' meeting, the company's board decided to increase the common shares by 127,016,732 shares, or 52.9% of total share capital. The share offering was placed to finance the acquisition of Scanvaegt (52,016,732 shares) and to provide capital to strengthen the company's investment activities.

The offering took place between the 13th and 14th of September. A total of 75 million new shares were divided between pre-emptive right holders, institutional investors and the general public at a price of ISK 74 per share, giving a total offer size of ISK 5,550 million. Investors subscribed to shares for a market value of ISK 35.8 billion, substantially more than the total market value of the company. Following the share offering and the registration of shares issued for the acquisition of Scanvaegt, Marel shares totaled 367,080,732. Landsbanki Corporate Finance acted as manager of the offering.

TOP 10 SHAREHOLDERS AS OF 31st OF DECEMBER 2006

Name	No. Of shares	%
Eyrir Invest ehf	108,675,840	29.61
Landsbanki Íslands hf, aðalstöðvar	87,942,955	23.96
Grundtvig Invest ApS	52,200,943	14.22
Lífeyrissjóðir Bankastræti 7	8,457,835	2.30
Lífeyrissjóður verslunarmanna	6,752,105	1.84
Ingunn Sigurðardóttir	5,437,733	1.48
Helga Sigurðardóttir	5,348,749	1.46
Súsanna Sigurðardóttir	5,308,774	1.45
Egill Vilhjálmur Sigurðsson	4,278,999	1.17
Eignarhaldsfélag Hörpu ehf	4,195,671	1.14
Total	288,599,604	78.62
Others	78,481,128	21.38
Registered share capital	367,080,732	100.00

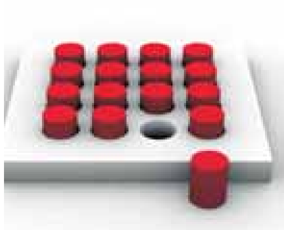
Shareholders

The number of shareholders was recorded on the shareholders register to be 2,975 at year end 2006, compared to 1,176 shareholders at the end of 2005. As of December 31st, 2006, Marel holds 1,249,339 treasury shares.

Liquidity of shares

An agreement was made on market making for issued shares with Landsbanki Íslands. The purpose of the agreement is to improve liquidity and enhance the transparent price formation of the company's shares on the OMX Nordic Exchange.

marel MAREL FOOD SYSTEMS carnitech MAREL FOOD SYSTEMS scanvaegt MAREL FOOD SYSTEMS aew delford MAREL FOOD SYSTEMS



Shares in Marel were traded 1,736 times for a total market value of ISK 5.8 billion (down from 6.8 billion in 2005), which corresponds to a turnover rate of 27.9%. The average end-of-day spread was 0.9%. The market value of the company at year-end 2006 was ISK 28.3 billion.

DISTRIBUTION OF SHARES AS OF 31st OF DECEMBER 2006

Number of Shares		Shareholders	%	Shares	%
1	9,999	2,250	75.63	10,419,117	2.84
10,000	99,999	610	20.50	16,302,116	4.44
100,000	199,999	49	1.65	7,219,143	1.97
200,000	799,999	40	1.34	16,136,676	4.40
800,000	1,399,999	8	0.27	8,418,233	2.29
1,400,000	2,999,999	6	0.20	11,822,275	3.22
3,000,000	9,999,999	9	0.30	47,943,434	13.06
10,000,000	99,999,999	2	0.07	140,143,898	38.18
100,000,000	+	1	0.03	108,675,840	29.61
		2,975	100.00	367,080,732	100.00

Dividend

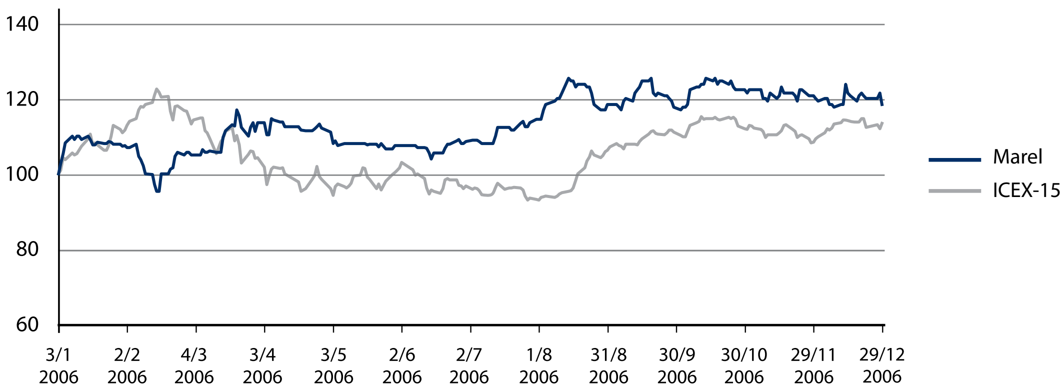
Marel paid a dividend ISK 0.2 per share in 2006.

Share options to key employees

Two share option programs are currently in place for employees at Marel Food Systems.

Excercisable	Number of shares (in 1,000)	Exercise price (ISK)	Exercisable in
Option 1	3,379	42	2007
Option 2	14,235	70	2007-2011
Total	17,614		

MAREL SHARE PRICE COMPARED TO THE ICEX-15 INDEX



Investor relations

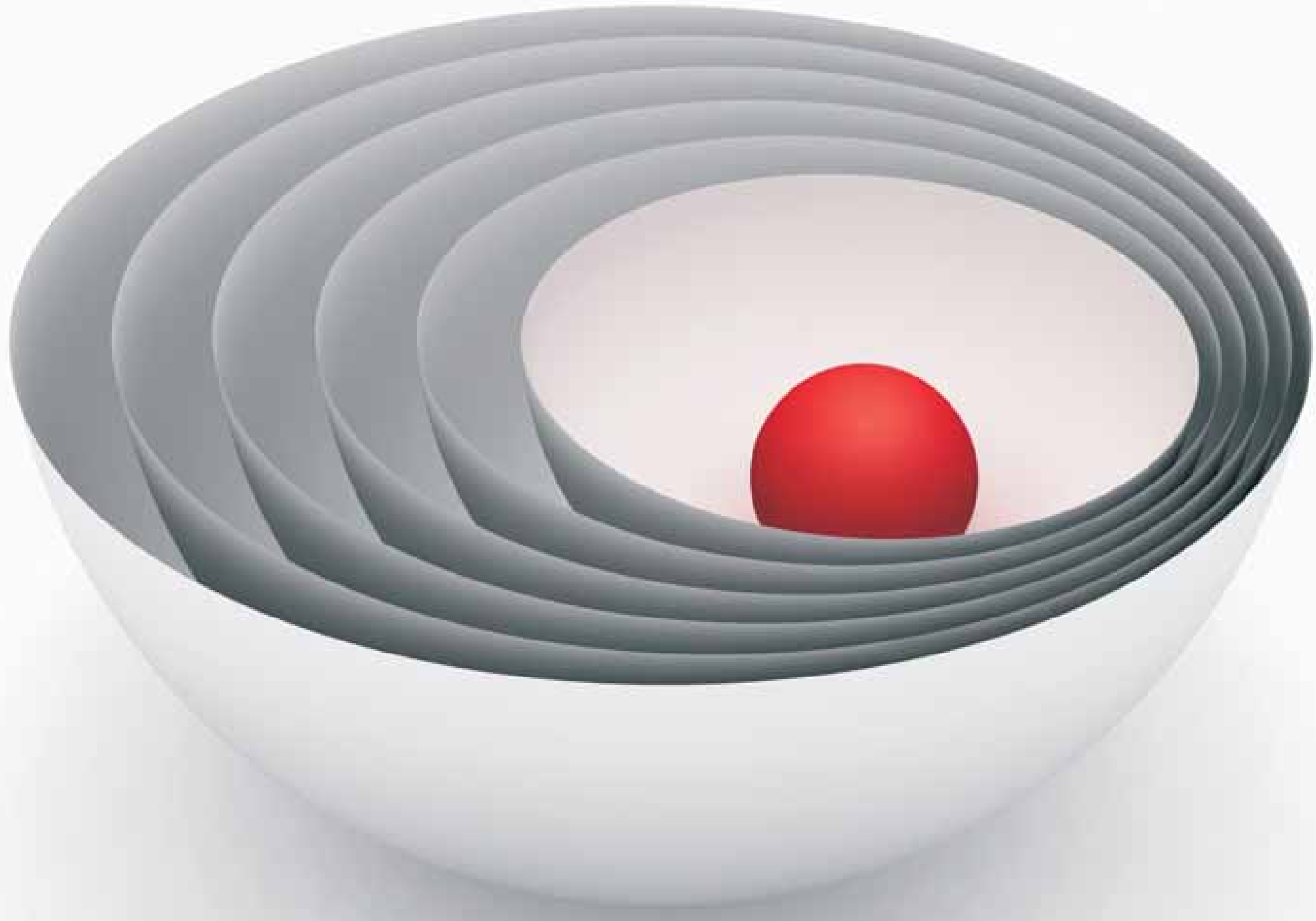
The company abides by the rules laid down by the Financial Supervisory Authority on the treatment of insider information and insider trading from 4 December 2006, cf. Act No. 33/2003 on Securities Transactions. Furthermore, the company has adopted procedures applicable to the insider trading of primary insiders and financially linked parties before and after the publication of financial statements.

The company endeavors to ensure transparency and to promote the correct price structuring of its shares. The Board of Directors has appointed a Compliance Officer, who monitors share trading by employees and primary insiders according to Act No. 33/2003 on Securities Transactions. The Compliance Officer also oversees investor relations and the implementation of the company's strategy of supplying accurate and thorough information to investors, analysts and shareholders. Efforts are made to ensure that both domestic and foreign investors have access to information about the activities of the company by publishing such information simultaneously in Icelandic and English.

Marel Food Systems publishes in-depth investor information on the www.marel.com website. Online services include complete share overview, graphs and interactive tools for analysis and comparison of the shares, share price look-up, historic share price information, an interactive analysis tool with historical financial data to analyze trends, investment calculators and WAP services for share quotes. All investor related publications are available online for download.

Development 2006

"Innovation is not the product of logical thought, although the result is tied to logical structure."
Albert Einstein



Acquisitions

At the 2006 Annual General Meeting, Marel announced that the company's development strategy was to conclude two to four strategic acquisitions in order to expand its unique technological position, and improve access to markets. It is expected that this could triple the company's turnover over the next 3-5 years. Since this strategy was announced, Marel has purchased two companies.

In April 2006, Marel announced the purchase of assets and operations of AEW Thurne and Delford Sortaweigh. After the purchase, Marel established a new company, AEW Delford Systems, around the assets and operations of the companies. AEW Delford Systems entered Marel's accounts on 7 April 2006.

In August 2006, it was announced that Marel had bought all shares in Danish company Scanvaegt International A/S for EUR 109.2 million, that is broken down as follows: Marel paid upon concluding the agreement EUR 23.5 million, assumed liabilities of EUR 26.1 million, paid with Marel shares EUR 40.2 million, and in two years will pay EUR 19.4 million.

When making investments, Marel has focused on complementing the company's strategy, and supporting its future growth. The following table gives an overview of the company's main investments in other companies for 2006 to date, and for the previous three years.

SUMMARY OF INVESTMENTS 2004-2006

Year	Company	Country	Holding	Purch.price	Financing
2006	Scanvægt International A/S	Denmark	100%	EUR 109.2 million[1)]	New share/loan
2006	AEW Delford Systems Ltd.	UK	100%	EUR 19.5 million[2)]	Loan financing
2006	LME ehf	Iceland	20%	EUR 8.2 million[3)]	Loan financing
2005	DanTech Food Systems pte. Ltd.	Singapore	100%	EUR 2.0 million	From operations
2004	Póls hf	Iceland	100%	EUR 1.3 million[4)]	From operations
2004	Geba	Germany	-	EUR 3.9 million[5)]	From operations

1) All equity, purchasing price on a debt and cash free basis.
2) Acquisition of the assets and operations on a debt and cash free basis.
3) Investment in the form of subordinated debenture loan.
4) Under certain circumstances, if operation goals will be reached within three years, maximum EUR 285,000 has to be paid in addition to the purchase price above.
5) Part of Röscherwerke GmbH operations in Germany, operations under the trademark Geba.

AEW Delford Systems Ltd.

The companies that comprise AEW Delford Systems were previously owned by a British holding company AEW Delford Group Ltd. AEW Thurne manufactures automatic slicing machines with portion control, along with sawing and shaping equipment for the food industry. Delford Sortaweigh manufactures checkweighers, graders, weight price-labeling machines, film-wrapping machines, plastic sleeving machines and robot portion-loading machines. Production takes place in Norwich and Harwich in Britain, and sales offices were located in Illinois and Arkansas in the USA, and in France.

AEW Delford Systems emphasizes improving productivity and efficiency for its customers, from slicing and packing with fast, precise and highly reliable solutions to maximize yield, capacity and profitability.

AEW Delford Systems' leading products fit very well with Marel Food Systems' current product range. Synergy in purchasing and manufacturing is anticipated, as well as increased sales through Marel Food Systems' global sales and distribution network. AEW Delford Systems will strengthen the Group's position in the meat sector, and move it into new markets in cheese production and case-ready production.

Scanvaegt International A/S

The acquisition of Scanvaegt was an important step in Marel Food Systems' strategy of being an international leader in developing and marketing high-tech equipment for the food processing industry, and the goal of tripling turnover in the next three to five years. Significant sales increases are anticipated when new products join the existing product range after the companies' sales networks merge. Geographically, Scanvaegt strengthens Marel Food Systems' position in Southern Europe and South America while also strengthening its product range with the design and manufacture of equipment for case-ready vegetables, cheese, etc. About 19% of Scanvaegt's turnover for the last fiscal year is from the food industry that is outside Marel Food Systems' current market sectors of fish, meat and poultry processing.

Scanvaegt was founded in 1932 by Knud Grundtvig, and was fully owned and run by the Grundtvig family until the acquisition. Over the years, Scanvaegt has become well established and trademarks such as ScanVision, DreamBatcher and ScanPortioner are among the best known in the industry. Most of Scanvaegt's products are manufactured in Denmark, with the remainder being produced in Brazil.

The following table shows key figures from Scanvaegt International A/S's accounts for the past three fiscal years. Scanvaegt's fiscal year is from 1 May to 30 April. Scanvaegt's financial statements are in accordance with generally accepted accounting principles in Denmark (Danish GAAP). Danish accounting principles differ in some ways from methods according to the International Financial Reporting Standards (IFRS). Sums in Scanvaegt's accounts, therefore, are not fully comparable to sums in Marel Food Systems' accounts. Sums in the table below have been converted into euros.

KEY FIGURES – SCANVAEGT A/S.

	2005/06	2004/05	2003/04
Sales	92,088	89,124	87,316
Gross profit	24,905	25,400	23,995
Profit before depreciation (EBITDA)	5,966	7,418	6,331
Profit from operations (EBIT)	2,031	3,306	2,155
Net profit	394	1,521	473
Cash flow statement			
Net cash from operating activities	2,350	3,806	2,760
Investing activities	(2,640)	(2,817)	(1,752)
Financing activities	204	(955)	(1,008)
Financial position			
Total assest	63,438	62,487	63,202
Working capital	11,193	9,951	8,876
Equity	16,130	15,464	14,071
Amounts in thousands of EUR			
Other key ratios			
Current ratio	1.4	1.3	1.3
Quick ratio	0.8	0.7	0.9
Equity ratio	25.4%	24.7%	22.3%
Return on owners' equity	2.5%	10.8%	3.4%

Scanvaegt's revenue for the fiscal year 1 May 2005 to 30 April 2006 totaled EUR 92.1 million; the company's EBITDA was EUR 6.0 million during the same period or 6.5%.

The enterprise value of Scanvaegt International A/S was EUR 109.2 million, of which EUR 26.1 million are liabilities assumed by Marel. The purchase was provisionally based on the issuance of 52,016,732 new shares in Marel. The contractual price of their shares was EUR 40.2 million, equivalent to ISK 72.5 for each share in Marel.

The accompanying table shows the breakdown of the purchase price of Scanvaegt shares as it appears in Marel's financial statements as of 31 December 2006.

SCANVAEGT'S IMPACT ON MAREL'S BALANCE SHEET

Property, plant and equipment	13,279
Intangibles	4,134
Investments in associates	876
Receivables non-current	116
Inventories	15,444
Production contracts	1,556
Receivables and prepayments	23,412
Cash and cash equivalents	781
Non-current liabilities	(14,199)
Deferred income tax liabilities	(770)
Trade and other payables	(20,583)
Current tax liabilities	(302)
Provision	(505)
Borrowings	(12,006)
Fair value	11,233
Goodwill	78,150
	89,383

Amounts in thousands of EUR

The price of all shares in Scanvaegt was EUR 89.4 million, with the appendant takeover of interest bearing debt for EUR 26.2 million.

According to IFRS, it is required to enter delivered shares at the market price on the day that Scanvaegt enters Marel's accounts. The value of delivered shares in Marel therefore increased by about EUR 4.2 million from the time the purchase was agreed to until Scanvaegt entered the accounts on 4 August 2006. The market price of Marel on 4 August 2006 was 77.0, and the agreed price was 72.5.

Marel applied the so-called fair value approach in accordance with International Financial Accounting Standards (IFRS 3) when entering the purchase, which involved valuing the fair value of assets and debts based on 4 August 2006. Marel has not used Scanvaegt's previous financial statements, except when assets and debts were evaluated on 4 August 2006. The impact of the purchase on cash, according to Marel's cash flow, is EUR 24.7 million. The accompanying table shows the breakdown of the impact on cash flow.

SCANVAEGT'S IMPACT ON MAREL'S CASH FLOW

Cash flow from investing activities:	
Acquisition of Scanvaegt without cash	(88,602)
Cash flow from financing activities:	
New shares	44,429
Borrowings (NPV)	19,430
Changes in cash and cash equivalents	(24,743)

Amounts in thousands of EUR

LME ehf.

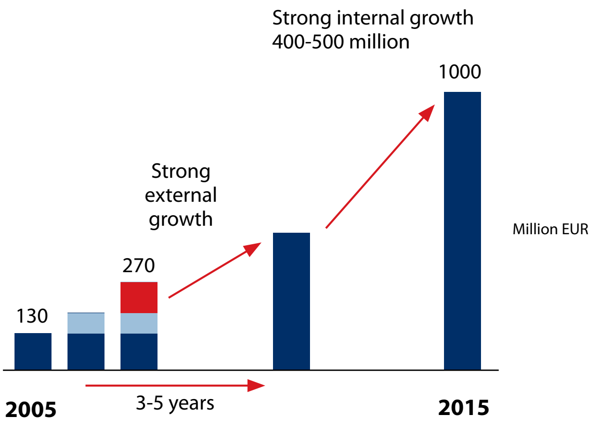
Marel, Eyrir Invest and Landsbanki Íslands, The Icelandic National Bank, founded the holding company LME ehf., in February 2006 for the purpose of purchasing shares in the Dutch company Stork NV. This investment was made to contribute to continued good cooperation between the companies. LME owns 8% of shares in Stork NV. Landsbanki and Eyrir Invest each own about 40% of shares in LME. Marel's share in LME is 20%, and capital tied up because of this investment is in accordance with its shareholding.

Opportunities and outlook

Work has been continuing on a development strategy and implementation plan for Marel Food Systems for the coming years. This work has involved studying Marel Food Systems' competitive position and the position of the industry. The current outlook is that no single company has a decisive leadership position in the industry; instead, there are numerous smaller companies. Marel's management anticipates major integration will occur in the coming years, which the company intends to lead.

Marel Food Systems aims at attaining a 15-20% market share over the next 3-5 years and a turnover of EUR 400-500 million. This will be accomplished by strong internal growth, strategic acquisitions/mergers of two to four key companies with good growth potential and strong integration with the company, and by developing the best products and services.

Marel's turnover in 2005 was EUR 129 million. With the purchase of AEW Delford and Scanvaegt, projected annual turnover for the company in 2007 is double that of 2005.



The management expects that it will be able to achieve the company's goal of EUR 400 - 500 million in turnover over the next three to five years with internal growth. However, opportunities for external growth will continue to be explored.

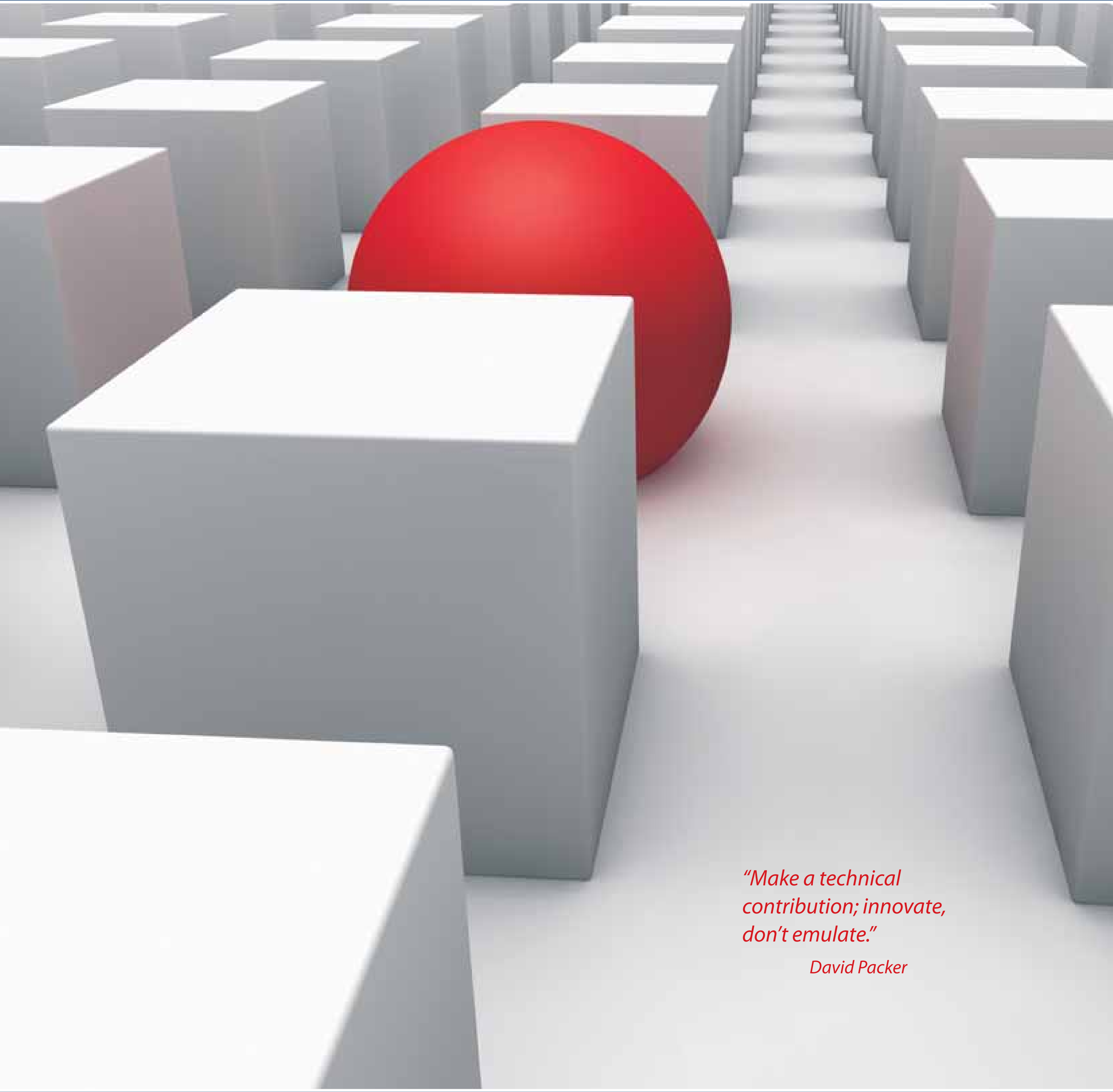
Integration in the USA

In April 2007, the US sales and service networks of Marel USA, Marel Canada, AEW Delford and Scanvaegt will be fully integrated under one roof in a new 25,000 sq. ft. facility in Kansas City, USA.

Over 100 employees from Marel USA, AEW Delford and Scanvaegt will be working together as a single unit providing sales and services for all Marel Food Systems equipment to the US market. The President of the new operation is former Marel USA director Einar Einarsson. The new complex is the first major step in bringing the Marel Food Systems together and establishing a new company image throughout the entire food processing industry. Marel Food Systems' product portfolio has grown substantially with the recent acquisitions.

The North American operation will continue to provide sales and services to all sectors of the food processing industry featuring solutions from AEW Delford, Scanvaegt, and Marel. With the merger the company will be in a position to serve the core industries – fish, meat and poultry – in a much stronger way with solutions and services that span a broad spectrum of the processing value chain.

Performance 2006



"Make a technical contribution; innovate, don't emulate."

David Packer

Financial performance

Operating revenues and expenses

Marel's operating revenues amounted to EUR 208.7 million, compared to EUR 129.0 million for the year 2005, which represents an increase of EUR 79.7 million, or 61.7%. The acquisitions of AEW Delford Systems in United Kingdom and Scanvaegt in Denmark were included in the consolidated accounts from 7 April and 4 August, respectively.

Any assessment of operations in 2006 and comparison with previous results must take into account operating expenses that include major acquisition related items such as one-time costs totaling about EUR 4.0 million.

Cost of goods sold was EUR 139.9 million compared to EUR 85.4 million for the previous year, an increase of 63.8%. Gross profit was 33.0% and 33.8% in 2006 and 2005, respectively. Other operating expenses totaled EUR 63.0 million for the year or 30.2% of revenue compared to 27.1% for the previous year. The ratio of sales and marketing expenses to operating revenue was 13.9% compared to 12.4% for the previous year. Administrative expenses increased 98.1%, to EUR 22.2 million compared to EUR 11.2 million in 2005. This was partly due to one-time integration costs.

As a ratio of operating revenue, the expenses have developed as follows:

	Year 2006	Year 2005
Selling and marketing expenses	13.9%	12.4%
Research and development expenses	5.6%	6.1%
Administrative expenses	10.6%	8.7%

Operating profit before depreciation, financial items and taxes (EBITDA), and operating profit before financial items and taxes (EBIT) were as follows:

	Year 2006	Year 2005
EBITDA in thous. of EUR	15,679	14,814
EBITDA as a % of sales	7.5%	11.5%
EBIT in thous. of EUR	7,527	9,721
EBIT as a % of sales	3.6%	7.5%

The companies' extensive integration process has progressed well and on schedule. The integration of the companies will generate significant operational rationalization, which will begin impacting performance in 2007.

Marel's operation in millions of EUR

	Q4 ' 06	Q3 ' 06	Q2 ' 06	Q1 ' 06	Q4 '05
Sales	71.9	57.6	46.6	32.5	34.8
Operating profit (EBIT)	1.1	1.7	4.3	0.4	1.3
EBIT %	1.5%	2.9%	9.3%	1.4%	3.7%
Net finance expenses	(1.3)	(1.9)	(2.0)	0.1	(0.6)
Net profit	(0.5)	(0.7)	0.8	0.5	0.6
EBITDA	3.7	4.1	6.0	1.9	2.8

Financial items

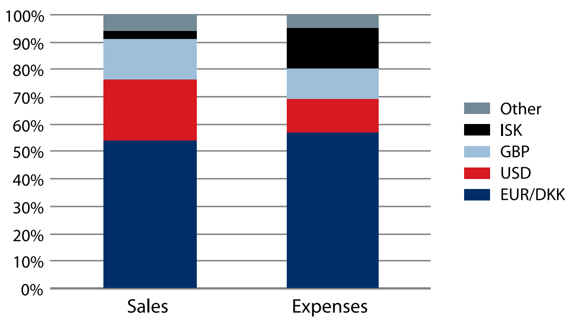
Net finance cost totaled EUR 5.0 million, compared to EUR 2.6 million for the previous year. The increase is a result of borrowing in the form of a debenture of ISK 6.0 billion. In conjunction, an agreement was made to swap the debenture to insure financing in foreign currency with payment of the interest and principal due in 2012. The proceeds were used to purchase the companies AEW Delford and Scanvaegt, as well as shares in the Dutch company Stork NV through LME ehf., and to invest in property, plants and equipment.

The company's share in the operational loss of associated companies totaled EUR 1.4 million, which may be attributed to investments by LME in Stork NV. Marel owns 20% of LME which currently owns 8% of Stork NV's shares.

The company has entered into forward exchange rate contracts to offset all estimated costs in Icelandic Krona through March 2008. The average exchange rate of these contracts from January 2007 through March 2008 is just over ISK 100 per EUR.

The company applies natural exchange rate hedging to the extent possible. At the end of the year, approximately 68.1% of the company's consolidated long-term liabilities were in Euros and Danish Krona, while 26.6% were in British pounds. Approximately 54.0% of sales were in Euros and Danish Krona, while the ratio of operating expenses was 57.0%. The weight of the Icelandic Krona was 3.0% in sales and 15.0% in expenses.

Further breakdown of sales and expenses by currencies is as follows:



Assets and liabilities

Total assets amounted to EUR 364.8 million, having more than tripled from the previous year. This increase is mainly due to the new acquisitions, AEW Delford and Scanvaegt, debenture offering and new share capital.

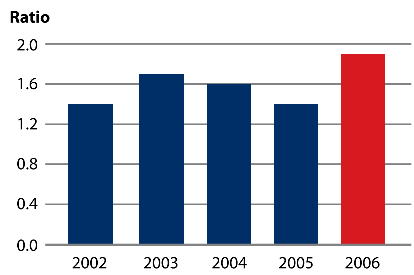
Net investment in property, plant and equipment during 2006 was EUR 8.1 million, compared to EUR 3.4 million in 2005. The principal of this increase can be attributed to the expansion of the production facility in Gardabaer, Iceland.

Owners equity

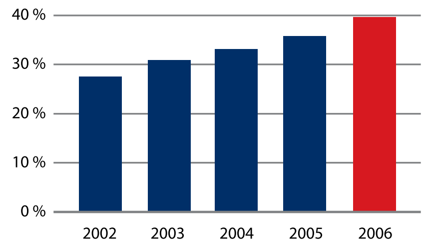
The meeting of the Board of Directors of Marel, held on Thursday, 24 August 2006, voted to exercise an authorization in the company's Articles of Association to increase its share capital. The Board agreed to increase share capital by 127,016,732 shares. Of this amount, 52,016,732 shares were issued and delivered to shareholders of Scanvaegt International A/S as partial payment for all their shares in Scanvaegt International A/S. The difference, 75 million shares, was issued to pre-emptive right holders, institutional investors and the general public at the price of ISK 74 per share. The total amount paid was ISK 5,550 million. The total number of shares at year end 2006 was 365,831,393, excluding 1,249,339 treasury shares.

	Year 2006	Year 2005
Profit	146	5,715
Changes in own shares	271	3,679
Issue of shares	103,843	0
Paid dividend	(601)	(590)
Other	(313)	633
Increase in equity before minority interest	103,346	9,437
Minority interest	45	0
Increase in total equity	103,391	9,437

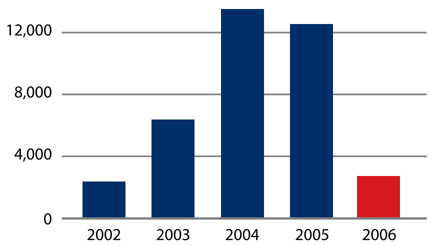
Current ratio



Equity ratio



Working capital from operation



The equity ratio was 39.6% in 2006 compared to 35.7% at year end 2005. Current ratio was 1.9 and 1.4 in 2006 and 2005, respectively. The ratio of pure gearing - interest bearing liabilities less cash and cash equivalents divided by shareholders' equity - was 0.66 compared to 0.98 in the previous year.

Dividends

Marel paid a dividend of ISK 0.2 per share in 2006.

Cash flow

Net cash to operation was EUR 3 million. The main reason for this is an increase in net working capital assets, especially inventory and accounts receivable. Net cash used in investing activities amounted to EUR 69.8 million compared to EUR 10.2 million in 2005. The main investments were the acquisition of AEW Delford and Scanvaegt as well as the expansion of the manufacturing facility in Gardabaer, Iceland.

Net cash from financing activities amounted to EUR 132.3 million compared to EUR 7.2 million in 2005. This increase is mainly due to issuance of new shares, EUR 59 million, and a debenture offering totaling EUR 84.3 million. Net cash was EUR 63.1 million at the end of 2006, compared to 3.9 million at the end of 2005.

Implementation of IFRS

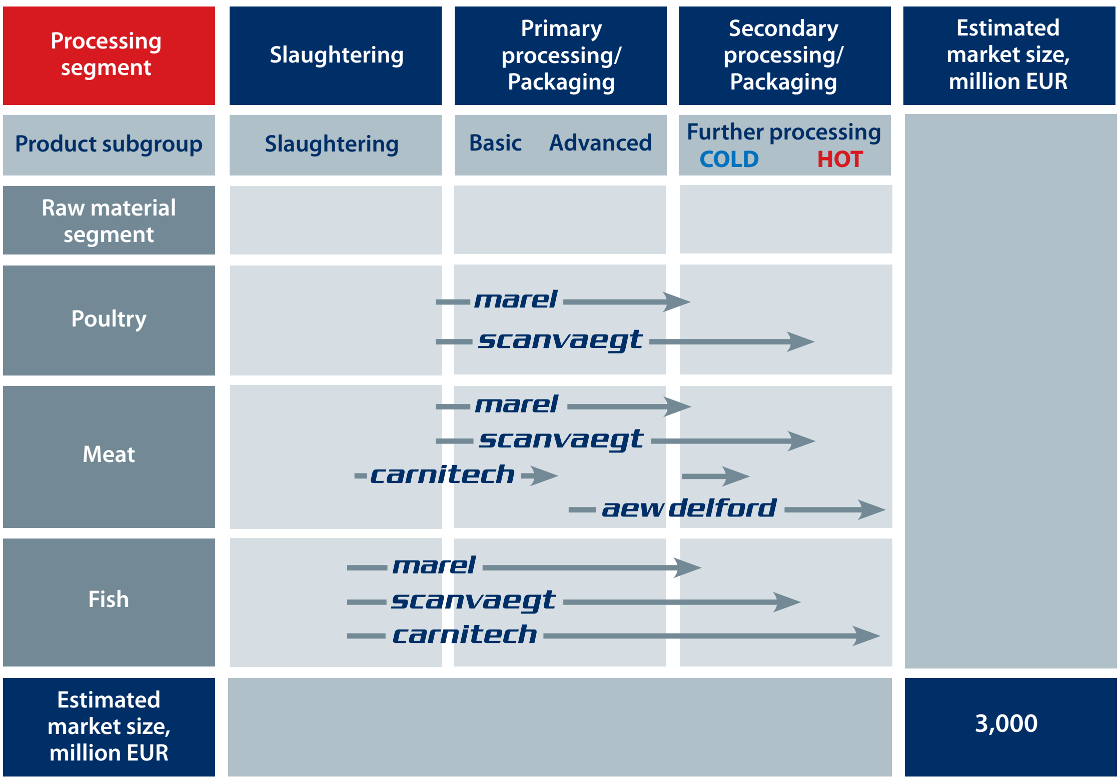
Marel financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and have been since 2005. Annual figures for the year 2004 have been changed in accordance with the IFRS standards.

Business operations

Marel Food Systems provides equipment to three main segments of the food processing industry: fish, meat and poultry, and also offers solutions for cheese processing and prepared foods. The company's brands cover numerous aspects of processing, from slaughtering and primary processing of raw material to packing and labeling of finished products. The company's comprehensive portfolio of components is designed to provide customers with integrated solutions from a single, reliable source.

Marel Food Systems' key markets are North America and Europe, and in 2006 operations continued to be reinforced in these areas. The company's presence in South America increased significantly after the merger with Scanvaegt International in August 2006. Effort also focused on market expansion by increasing operations in key growth markets such as Eastern Europe, Asia and Australia where excellent opportunities exist for the company's components and turnkey solutions.

In 2006, the company secured major contracts with many of the world's largest fish, meat and poultry processors. These large contracts for processing solutions are a result of long-term sales and marketing efforts, which will support the organic growth of the company.



Fish industry

Seafood processors worldwide have been gradually moving towards case-ready and net-weight tray packing and integrated traceability. These and other retail-oriented trends have underlined the need to optimize yield and monitor production flow, as well as effectively track products from source to consumer. This has created a myriad of new possibilities and opportunities for Marel Food Systems, as the industry is expected to continue investing in new processing solutions that focus on these trends.

In 2006, the global fish and fish farming industry continued to undergo a consolidation period with the merger of such giants as Connors/Bumblebee and Pan Fish/Marine Harvest/Fjord Seafood. These major players increasingly look to a single-source provider for complete processing solutions, a role well suited to Marel Food Systems.

Whitefish

Marel and Scanvaegt experienced a significant increase in sales to the fisheries industry in 2006. Several large contracts were signed, and processing lines sold well in Iceland where the first fully automatic pin-bone removal solution was installed. Scanvaegt was particularly active in the South American and southern European markets during the year. One of the largest projects was a Scanvaegt weighing and packing line that was installed in Cofradia de Bueu, Spain's largest fishing auctions. Carnitech's sales to the white fish industry were steady, in line with the previous year.

Fish remains a relatively weak segment for AEW Delford Systems. As with poultry, the product offering is mostly checkweighers and weigh-price labeling systems. However, with increased opportunities for robotic loading systems, along with Marel's strong position in fish processing, this industry will be one of the focus areas in 2007.

Salmon processing

Marel Food Systems fortified its market position in the salmon industry in 2006. The successful integration of CP Food Machinery and Geba with Carnitech Salmon created a strong unit, which introduced the new slicing concept – IPS3000 – and significantly increased sales on the French market.

In 2006, Scanvaegt experienced a growing interest in its Superior Salmon Solution concept, and two new Marel products were introduced and sold to the salmon processing industry. The new systems, SureTrack Grading System, a new concept for sizing and packing whole salmon, and the ITM, a high-tech automatic trimming machine that intelligently trims fillets, strengthened the salmon solutions offered by the Group.

Meat industry

Marel Food Systems sales to the meat industry were good in 2006, although performance varied between brands. The year was very successful for AEW Delford and Scanvaegt, with the latter more than doubling sales in this sector. Operations remained stable for Carnitech, while Marel sales to the meat industry were under expectations.

Red meat remained the strongest sector for AEW Delford Systems, accounting for almost a third of order intake in 2006. This figure is even larger when sales to the bacon and deli industries are included. The market position in bacon slicing will continue to strengthen in 2007 with new product offerings.

The Meat Division at Scanvaegt experienced a surge in order intake during 2006, resulting in turnover almost doubling budget projections. Sales of efficient management tools for yield control have been the driving force behind Scanvaegt's success during the year. Other factors such as traceability, hygiene and lack of available labor also play an important part in determining industry needs. Turn-key solutions are another trend in the industry. In 2006, Scanvaegt initiated and completed several large projects for major processors. Its solutions have proven highly effective for customers, and often have a pay-back on investment of well below 12 months.

The year was stable for Carnitech's firmly established meat-processing division. Core competence within this segment has also been large turnkey projects. Efforts to strengthen the division internally were successful. The strategy in 2006 was to build on the good success of the further processing product line, including mixers and grinder solutions, in effort to become a key player in that field. The brand has a strong foothold in the North European markets, and is progressively moving into the American and Eastern European markets as well.

Sales of Marel equipment to the meat industry were below expectations in 2006 due to weak sales in the USA. Performance on other markets was better. Special effort was put into promoting a deboning and steak cutting Flowline Concept, which resulted in lines being sold to several countries. Marel portioning solutions continued to enjoy a strong market position. A new solution for portioning and loading directly into trays – the OptiCut and QuickLoader solution – was successfully introduced and sold to major processors in 2006. Prospects for this new portioning solution are excellent.

Poultry industry

Sales to the poultry sector remained good in 2006. Increased sales and growth in this sector were evident across Marel Food Systems. Bird flu is still a predominant issue in the industry, but the effect on Marel Food Systems has not been negative. To the contrary, the company's proven traceability solutions have made it a preferred supplier to many of the major poultry producers in the world. The company's ability to provide large-scale turnkey solutions has helped it maintain its leadership position in an industry where intense global competition focuses on the need to improve efficiency and yield while reducing giveaway.

The company maintained a strong market position on all of its markets, while increasing its coverage of new markets. A breakthrough occurred in Russia with large turn-key sales from both Marel and Scanvaegt. Sales are also picking up momentum in other countries in Eastern and Central Europe.

The USA poultry market is one of the largest for Marel's poultry portioning solutions, and sales were good in 2006. The TSM template slicing machine has been a best seller on the US market. The IPM III portioning machine also sells well.

The first Marel poultry X-ray bone-detection systems were sold during the year, and have been performing very well. There are high expectations for sales of the SensorX solution in 2007, as the market has long awaited a machine that could fulfill the challenging need to produce boneless products.

The poultry division has been a substantial contributor to Scanvaegt's success over the years, and has become a model for other industry-specific expert groups at Scanvaegt. The DreamBatcher™ fixed weight packing concept has been a success for some years, and 2006 was no exception. During the year, Scanvaegt fortified its leading market position, particularly in the UK, Holland, France and Germany.

The poultry sector produced strong results for AEW Delford in 2006. This is largely due to increased opportunities that AEW Delford poultry products have enjoyed as part of Marel Food System sales network. New product offerings of robot loading and grading systems will further enhance the company's position in poultry during 2007.

Other

Software solutions

The company focuses on dynamic software development. Sales of Marel software grew by 85% over the previous year, well beyond projections. This success can be attributed to very comprehensive and reliable processing-plant software, as well as the restructuring of the Software group into a business unit two years ago. Continued revenue growth is expected from this segment in the future.

Cheese

AEW Delford offers weigh-price labeling systems to the cheese processing industry and other industry segments outside the main fish, meat and poultry sectors. The cheese industry remained strong for AEW Delford in 2006 and sales to other industry segments were good, mostly reflecting the non-industry specific nature of the weigh-price labeling systems.

Prepared foods

Scanvaegt offers a range of equipment and applications for handling and packing prepared foods. In 2006, Scanvaegt experienced the highest turnover to date in prepared foods, and increased market share in all segments. A strategic goal for the seafood industry contributed to this success, as did increased sales to countries such as Spain, Portugal and Chile where several large projects were sold in 2006. Innovations such as Automatic Feeder Adjustment technology, available on all ScanCombinators, are having a significant impact on increasing future prospects.

Innovation

Marel Food Systems strives to be an international leader in developing and marketing high-tech processing equipment for the food processing industry in order to increase the productivity of its customers. To fulfill that goal the company operates strong research and development teams that focus on using new and existing technologies to create innovative solutions to current and emerging production challenges.

The strong research and development strategy is supported by an annual investment of 6-7% of revenue in innovation, which is above the average expenditure of competitors in the field. Highly qualified researchers and technicians, a great working relationship with leaders in the food processing industry and a pioneering mindset contribute to the company's successful product development that has kept it at the forefront of the industry in the last decades.

In 2006, product standardization work continued, which has contributed considerably to increased efficiency and lower production costs. Marel Food Systems concentrates on best serving its customers by working closely with them on developing market-focused products. This has translated into one of the company's largest strengths: its capability to respond quickly to emerging needs. The result is an 18% turnover ratio of new products on average.

Around 200 of the company's employees worked in product development during 2006. The acquisitions of AWE Delford and Scanvaegt have strengthened product development activities within the company. Increased cooperation will maximize knowledge utilization and strengthen the product mix even further as the company focuses on being a single source provider for the entire production process.

Research and development

Marel Food Systems employs a highly qualified team of researchers and technicians whose primary task is to increase knowledge of new technologies, which strengthen the company 's technological base. This research work is an addition to product development, which continues to play a key role in the company's operations.

Marel Food Systems maintains strong connections with the scientific community by participating in international research projects, welcoming research guests, and by providing scientists with research facilities for special projects that are applicable to the company's operational fields. It also supports the teaching of science and mathematics.

Patents and trademarks

Patent protection is vital to Marel Food Systems, as its value and strong position are to a large degree built on technological innovation and employee experience. The company's investments are primarily in the knowledge and expertise of its employees. For this reason, the company is very involved in protecting the proprietary rights of its product development activities.

In 2006, Marel Food Systems applied for about 15 patents. On average, the company applies for five to ten patents yearly. Marel Food Systems has 20 registered trademarks on all of its main markets, and 62 patents in 20 countries.

New products introduced in 2006

For all industries

- **ProLine, new generation of midsize graders**, is a versatile suite of standardized, modular options, designed to fulfill all general grading and batching needs.
- **ScanVision** uses dynamic weighing and 3D laser vision to batch products based on weight, length, height and width.
- **Superflow MK II** impingement freezer for efficient crust freezing and improved shelf life.
- **Automatic Feeder Adjustment-technology** (AFA) for multi-head weighers, which enables the ScanCombinator to adjust the feeder system automatically within 30 seconds.

For fish processing

- **Intelligent Trimming Machine** for the Salmon Industry with an advanced computer vision system that automatically evaluates and trims salmon fillets.
- **CT 2620 Deheader** for deheading as well as tail cutting of salmon.

For meat processing

- **Portioning and Tray Packing Solution** with OptiCut and QuickLoader that automatically portions meat and then stacks it into trays for packing.

For poultry processing

- **SensorX Poultry Bone Analysis System** that scans the product for bone content using X-ray computer vision.
- **ScanFeeder 7700TM** – an automatic infeed technology for poultry, which virtually does away with feed line operators.
- **ScanPortioner B22** uses a high-speed laser vision system to maintain high accuracy.
- **Cut N' Batch concept** – a new system that allows a ScanPortioner portion cutter to function as a batcher for making fixed weight trays of meat.

"All truths are easy to understand once they are discovered; the point is to discover them".

Galileo Galilei

Consolidated financial statements for 2006

marel
food systems

The Board of Directors' and CEO's Report

The consolidated financial statements for the year 2006 comprise the financial statements of Marel hf and its subsidiaries. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The companies AEW Delford Systems and Scanvaegt were acquired in April and August respectively. Further information is provided in note 29.

Marel hf issued debentures for ISK 6 billion in February 2006. Marel hf has concluded interest swap agreements which are connected with the issuance of debentures that ensure the company financing in foreign currency with payment of the interest and principal due in 2012.

A public offering of 75 million new shares in Marel hf were sold for ISK 5,550 million in September. The total number of Marel hf shares after the offering and delivery of 52 million shares as a payment for Scanvaegt is 367,080,732.

Total sales of the Group according to the income statement were EUR 208 million in the year compared to EUR 129 million in the year 2005. Net profit of the Group amounted to EUR 0.1 million compared to EUR 5.7 million in the preceding year. Assets of the Group amounted to EUR 364 million according to the balance sheet and shareholders' equity amounted to EUR 144 million at year-end.

During the year an average of 1,615 employees were employed by the Group, with 356 employed by the parent company (at year end 2,116). Total wages and salaries for the group amounted to EUR 79.9 million.

The number of shareholders in Marel hf at year end 2006 was 2,975, an increase of 1,799 during the year. Three shareholders had a holding interest of more than 10% in the company, Eyrir Invest, with 29.61%, Landsbanki Íslands hf, with 23.96% and Grundtvig Investment with 14.22%.

The Board of Directors suggests that a dividend amounting to ISK 73.2 million, 0.2 per share, to be paid in the year 2007, but refers to the financial statements regarding appropriation of the year's net profit and changes in shareholders' equity.

The Board of Directors and CEO of Marel hf hereby ratify the Financial Statements of Marel hf for the year 2006 with their signatures.

Garðabær, 13 February 2007

Board of Directors

Árni Oddur Þórðarson

Arnar Þór Másson

Friðrik Jóhannsson

Helgi Magnússon

Margrét Jónsdóttir

Chief Executive Officer

Hörður Arnarson

Independent Auditors' Report

To the Shareholders and Board of Directors of Marel hf

We have audited the accompanying consolidated financial statements of Marel hf and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and 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 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 European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Garðabær, 13 February 2007

PricewaterhouseCoopers hf

Þórir Ólafsson

Kristinn Freyr Kristinsson

Financial Ratios

	2006	2005	2004	2003*	2002*
Operating results					
Sales	208,700	129,039	112,301	106,104	100,654
Gross profit	68,803	43,625	41,016	34,617	-
Profit before depreciation (EBITDA)	15,679	14,814	16,527	10,129	5,712
Profit from operations (EBIT)	7,527	9,721	12,066	6,568	2,278
Profit for the period	159	5,715	7,984	3,749	50
Cash flow statement					
Net cash from (to) operating activities	(2,992)	2,987	13,207	4,724	1,004
Investing activities	(69,754)	(10,180)	(6,389)	(1,955)	(17,959)
Financing activities	132,318	7,210	(7,263)	(1,153)	16,906
Financial position					
Total assets	364,793	114,890	95,482	81,334	82,602
Working capital	87,989	16,557	19,807	17,700	12,740
Equity	144,423	41,032	31,595	25,167	22,724
Various figures in proportion to sales					
Gross profit	33.0%	33.8%	36.5%	32.6%	-
Selling and marketing expenses	13.9%	12.4%	12.4%	12.8%	-
Research and development expenses	5.6%	6.1%	5.8%	6.8%	-
Administrative expenses	10.6%	8.7%	8.1%	8.1%	-
Wages and benefits	42.7%	42.5%	41.9%	41.0%	43.5%
Profit before depreciation (EBITDA)	7.5%	11.5%	14.7%	9.5%	5.7%
Depreciation/amortization	3.9%	3.9%	4.0%	3.4%	3.4%
Profit from operations (EBIT)	3.6%	7.5%	10.7%	6.2%	2.3%
Profit for the period	0.1%	4.4%	7.1%	3.5%	0.0%
Other key ratios					
Current ratio	1.9	1.4	1.6	1.7	1.4
Quick ratio	1.2	0.6	0.7	0.8	0.7
Equity ratio	39.6%	35.7%	33.1%	30.9%	27.5%
Return on owners' equity	0.2%	18.1%	30.5%	16.5%	0.2%
Return on total assets	0.1%	5.4%	9.0%	4.6%	0.1%
Earnings to price last 12 months	0.00	0.03	0.06	0.05	0.00
Price to earnings (P/E) last 12 months	-	36.7	17.7	19.7	990.0

*Amounts 2002-2003 are not in conformity with IFRS.

Marel hf. Consolidated financial statements for the year 2006 Amounts in thousands of EUR

Consolidated Income Statement

	Notes	2006 Q4	2005 Q4	2006	2005
Sales	5	71,946	34,785	208,700	129,039
Cost of sales		(48,296)	(23,518)	(139,897)	(85,414)
Gross profit		23,650	11,267	68,803	43,625
Other operating income		642	349	1,722	1,052
Selling and marketing expenses		(10,990)	(4,425)	(29,085)	(15,937)
Research and development expenses		(4,291)	(3,024)	(11,744)	(7,828)
Administrative expenses		(7,933)	(2,892)	(22,169)	(11,191)
Profit from operations		1,078	1,275	7,527	9,721
Finance costs - net	7	(1,264)	(576)	(5,026)	(2,639)
Share of results of associates	27	(236)	0	(1,449)	0
Profit before income tax		(422)	699	1,052	7,082
Income tax expense	9	(93)	(120)	(893)	(1,367)
Profit for the period		(515)	579	159	5,715
Attributable to:					
Equity holders of the Company		(520)	579	146	5,715
Minority interest		5		13	
		(515)	579	159	5,715
Earnings per share for profit attributable to equity holders of the company during the period (expressed in EUR cent per share):					
- basic	10	(0.14)	0.25	0.05	2.42
-diluted	10	(0.14)	0.24	0.05	2.38

The notes on pages 48-70 are an integral part of the consolidated financial statements.

Amounts in thousands of EUR

Consolidated Balance Sheet

	Notes	31/12 2006	31/12 2005
ASSETS			
Non-current assets			
Property, plant and equipment	12	56,125	33,242
Goodwill	13	97,117	9,580
Other intangible assets	13	16,510	8,518
Investments in associates	27	939	0
Available-for-sale investments	28	744	680
Receivables		7,021	29
Derivative financial instruments	18	37	0
Deferred income tax assets	21	1,991	1,231
		180,484	53,280
Current assets			
Inventories	14	53,263	25,274
Production contracts	15	13,118	8,921
Receivables and prepayments	16	54,003	23,517
Derivative financial instruments	18	846	18
Cash and cash equivalents	17	63,079	3,880
		184,309	61,610
Total assets		364,793	114,890
EQUITY			
Capital and reserves attributable to equity holders of Marel			
Ordinary shares	25	4,048	2,637
Treasury shares	25	(3)	(8)
Share premium		115,369	12,671
Fair value and other reserves	26	(88)	225
Retained earnings		25,052	25,507
		144,378	41,032
Minority interest		45	0
Total equity		144,423	41,032
LIABILITIES			
Non-current liabilities			
Borrowings	20	119,744	24,881
Deferred income tax liabilities	21	4,306	3,520
Derivative financial instruments	18	0	404
		124,050	28,805
Current liabilities			
Trade and other payables	19	54,861	24,719
Derivative financial instruments	18	445	0
Current income tax liabilities		709	278
Borrowings	20	38,803	19,262
Provisions	22	1,502	794
		96,320	45,053
Total liabilities		220,370	73,858
Total equity and liabilities		364,793	114,890

The notes on pages 48-70 are an integral part of the consolidated financial statements.

Marel hf. Consolidated financial statements for the year 2006 Amounts in thousands of EUR

Consolidated Statement of Changes in Shareholders' Equity

	Notes	Attributable to equity holders of the Company					Minority interest	Total equity
		Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2005		2,562	9,059	(408)	20,382	31,595	0	31,595
Cash flow hedges:								
– net fair value gain/(loss), net of tax	26			(257)		(257)		(257)
Currency translation differences	26			890		890		890
Net income/(expenses) recognised directly in equity		0	0	633	0	633	0	633
Sale of treasury shares		145	8,250			8,395		8,395
Purchases of treasury shares		(78)	(4,638)			(4,716)		(4,716)
Dividend related to 2004					(590)	(590)		(590)
Profit for the period					5,715	5,715		5,715
		67	3,612	633	5,125	9,437	0	9,437
Balance at 31 December 2005		2,629	12,671	225	25,507	41,032	0	41,032
Cash flow/net investment hedges:								
– net fair value gain/(loss), net of tax	26			676		676		676
Currency translation differences	26			(989)		(989)		(989)
Net income/(expenses) recognised directly in equity		0	0	(313)	0	(313)		(313)
Business combination						0	32	32
Sale of treasury shares		29	1,651			1,680		1,680
Purchases of treasury shares		(24)	(1,734)			(1,758)		(1,758)
Employee share option scheme:								
- value of services provided			349			349		349
Dividend related to 2005					(601)	(601)		(601)
Profit for the period					146	146	13	159
Issue of share capital - acquisition		1,411	102,432			103,843		103,843
		1,416	102,698	(313)	(455)	103,346	45	103,391
Balance at 31 December 2006		4,045	115,369	(88)	25,052	144,378	45	144,423

The notes on pages 48-70 are an integral part of the consolidated financial statements.

Marel hf. Consolidated financial statements for the year 2006 Amounts in thousands of EUR

Consolidated Cash Flow Statement

	Notes	2006	2005
Cash flows from operating activities			
Net profit		159	5,715
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and impairment of fixed assets		3,834	2,444
Amortisation and impairment of intangible assets		4,318	2,649
Currency fluctuations and indexation		(5,428)	1,056
Changes in deferred taxes		(788)	595
Share of results of associates, net of tax		1,460	0
Other changes		(817)	49
Working capital provided by operating activities		2,738	12,508
Changes in operating assets and liabilities:			
Inventories and production contracts		(8,214)	(4,649)
Trade and other receivables		(2,137)	(6,108)
Short-term liabilities, increase		4,621	1,236
Changes in operating assets and liabilities		(5,730)	(9,521)
Net cash (to) from operating activities		(2,992)	2,987
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	29	(45,732)	(1,939)
Purchase of property, plant and equipment (PPE)	12	(10,402)	(3,752)
Purchase of intangibles	13	(7,817)	(4,811)
Purchase of associate investments	27	(1)	0
Loans made		(8,223)	0
Proceeds from sale of PPE		2,303	322
Proceeds from sale of shares		118	0
Net cash used in investing activities		(69,754)	(10,180)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		59,018	0
Proceeds from (purchase of) treasury shares, net		271	3,678
Proceeds from borrowings		84,294	6,033
Repayments of borrowings		(10,095)	(1,429)
Finance lease principal payments		(569)	(482)
Dividend paid to group shareholders		(601)	(590)
Net cash from financing activities		132,318	7,210
Net increase in cash and cash equivalents		59,572	17
Exchange losses on cash and bank overdrafts		(373)	(503)
Cash and cash equivalents at beginning of year		3,880	4,366
Cash and cash equivalents at end of year		63,079	3,880
Other information			
Interest paid		2,431	1,959
Income tax paid		1,143	816

The notes on pages 48-70 are an integral part of the consolidated financial statements.

Marel hf. Consolidated financial statements for the year 2006 Amounts in thousands of EUR

Notes to the Consolidated Financial Statements

1. General information

Marel hf (the Company) is a limited liability company incorporated and domiciled in Iceland. The company has its listing on the Icelandic stock exchange.

These consolidated financial statements have been approved for issue by the board of directors on 13 February 2007.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Marel (the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The accounting policies, as adopted by the EU, depart from full IFRS in few standards, interpretations and amendments that will have minor effects on future reporting of the group.

At date of authorisation of these financial statements, the following standards were in issue but not effective:

	Effective date
IFRS 7 Financial Instruments: Disclosure	1 January 2007
IFRS 8 Operating Segments	1 January 2009

The following interpretentations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but that the Group has not early adopted:

	Effective date for annual periods beginning
IFRIC 8 Scope of IFRS 2	on or after 1 may 2006
IFRIC 10 Interim Financial reporting and Impairment	on or after 1 November 2006

Adoption of these standards will have no material impact on the financial statements of the Group.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies.

2.2 Consolidation

Subsidiaries
Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases. The principal subsidiaries are listed in note 33.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition, net of any accumulated impairment loss (see Note 2.6).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

Functional and presentation currency
Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The consolidated financial statements are presented in euros (EUR), which is the Company's functional and presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where hedge accounting is applied as explained in note 3.2.

Group companies
The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates
(unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognised as a separate component of equity (cumulative translation adjustment).

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Land and buildings comprise mainly factories and offices. All property, plant and equipment (PPE) is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	20-40 years
Plant and machinery	5-15 years
Equipment and motor vehicles	3-8 years

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. Borrowing cost is expensed as incurred except when directly attributable to acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use. Such borrowing cost is capitalised as part of the cost of the asset when it is probable that it will result in future economic benefits to the entity and the cost can be measured reliably.

2.6 Intangible assets

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill on some acquisitions that occurred prior to 1 January 2004 has been charged in full to retained earnings in shareholders' equity; such goodwill has not been retroactively capitalised.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Research and development
Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have a finite useful life and that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

Computer software
Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Other intangible assets
Expenditure to acquire patents, trademarks and licenses is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 3 years. Intangible assets are not revalued.

2.7 Impairment of non-financial assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Investments

The Group classifies its investments in the following categories: receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Receivables
Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Receivables are included in receivables and prepayments in the balance sheet (see note 2.11).

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as impairment loss from available-for-sale investments.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Notes to the Consolidated Financial Statements

2.9 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in process comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Costs of inventories include the transfer from equity of gains/losses on qualifying cash flow hedges relating to inventory purchases. Provision is raised against slow moving items.

2.10 Production (construction) contracts

Production costs are recognised when incurred.

When the outcome of a production contract cannot be estimated reliably, contract revenue is recognised only to the extent of production costs incurred that are likely to be recoverable.

When the outcome of a production contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

2.11 Receivables and prepayments

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company´s equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

2.14 Trade payable
Trade payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Employee benefits

Equity compensation benefits
The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

Profit sharing and bonus plans
Under some circumstances, a liability for key employee benefits in the form of profit sharing and bonus plans is recognised in other provisions when there is no realistic alternative but to settle the liability and at least the following condition is met:
– there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses. The company gives warranty on certain products and undertakes to repair or replace items that fail to perform satisfactorily. Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2.19 Revenue recognition

Revenue comprises the invoiced value for the sale of goods and services net of value-added tax, commissions and discounts, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Revenue from sales of goods is based on the stage of completion determined by reference to work performed to date as a percentage of total work to be performed.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost–recovery basis as conditions warrant.

Dividends are recognised when the right to receive payment is established.

2.20 Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.22 Comparatives

Where applicable comparative amounts in the income statement have been transferred between items to reflect changes in the presentation for this period. It doesn't affect the net operating income for the period.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk, cash flow risk and fair value interest-rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out within the group where applicable under policies approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to euros. Entities in the Group use forward contracts to manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

(ii) Price risk
The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as available for sale. The Group is not exposed to commodity price risk.

(b) Credit risk
The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and products not delivered until payments are secured. The Group has policies that limit the amount of credit exposure to any one financial institution.

(c) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk
The Group's income and operating cash flows are substantially independent of changes in market interest rates. The interest rates of finance leases to which the Group is lessor or lessee are fixed at inception of the lease. These leases expose the Group to fair value interest rate risk. The Group's cash flow interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain approximately between 40 and 50% of its borrowings in fixed rate instruments.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

3.2 Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge) or hedges of highly probable forecast transactions (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 18. Movements on the hedging reserve in shareholders' equity are shown in note 26.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill
The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value in use calculation. These calculation require the use of estimates.

(b) Income taxes
The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Revenue recognition
The Group uses the percentage-of-completion method in accounting for its sales of goods and production contracts.
Use of the percentage-of-completion method requires the Group to estimate the stage of completion to date as a proportion of the total work to be performed.

Notes to the Consolidated Financial Statements

5. Segment information

Business segments
At 31 December 2006, the Group is organised on a worldwide basis into three main business segments (industries): (1) Fish, (2) Poultry and (3) Meat.

Other Group operations mainly comprise the sale of manufacturing services which does not constitute a separately reportable segment.

The segment results for the year ended 31 December 2006 are as follows:

	Fish	Poultry	Meat	Unallocated	Group
Total gross segment sales	86,842	57,320	62,069	43,282	249,513
Inter-segment sales	(3,432)	(13,358)	(3,713)	(20,310)	(40,813)
Sales	83,410	43,962	58,356	22,972	208,700
Operating profit					7,527
Finance costs - net					(5,026)
Share of results of associates					(1,449)
Profit before tax					1,052
Income tax expense					(893)
Profit for the period					159

The segment results for the year ended 31 December 2005 are as follows:

	Fish	Poultry	Meat	Unallocated	Group
Total gross segment sales	60,637	31,937	51,947	26,097	170,618
Inter-segment sales	(2,007)	(7,081)	(9,341)	(23,150)	(41,579)
Sales	58,630	24,856	42,606	2,947	129,039
Operating profit					9,721
Finance costs - net					(2,639)
Profit before tax					7,082
Tax expense					(1,367)
Profit for the period					5,715

The group does not allocate assets, liabilities, depreciation, amortization, impairment charge and capital expenditures between business segments.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Secondary reporting format – geographical segments

The Group's three business segments operate in two main geographical areas, even though they are managed on a worldwide basis.
The home country of the Company – which is also the main operating company – is Iceland.

	2006	**2005**
Sales		
Iceland	4,889	4,950
Other countries	203,811	124,089
	208,700	129,039

Sales are allocated based on the country in which the customer is located.

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Notes to the Consolidated Financial Statements

	2006	2005
Total assets		
Iceland	267,458	80,991
Other countries	97,335	33,899
	364,793	114,890
Capital expenditure		
Iceland	11,619	5,746
Other countries	6,601	2,817
	18,220	8,563

Capital expenditure is allocated based on where the assets are located.

6. Quarterly results

	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005
Sales	71,946	57,648	46,639	32,467	34,785
Cost of sales	(48,296)	(38,729)	(30,788)	(22,084)	(23,518)
Gross profit	23,650	18,919	15,851	10,383	11,267
Other operating income	642	516	290	274	349
Selling and marketing expenses	(10,990)	(7,387)	(5,852)	(4,856)	(4,425)
Research and development expenses	(4,291)	(3,285)	(2,501)	(1,667)	(3,024)
Administrative expenses	(7,933)	(7,092)	(3,464)	(3,680)	(2,892)
Profit from operations (EBIT)	1,078	1,671	4,324	454	1,275
Finance costs - net	(1,264)	(1,890)	(2,013)	141	(576)
Share of results of associates	(236)	(498)	(715)		
Profit (loss) before tax	(422)	(717)	1,596	595	699
Income tax expense	(93)	43	(799)	(44)	(120)
Profit for the period	(515)	(674)	797	551	579
Profit before depreciation (EBITDA)	3,730	4,094	5,979	1,876	2,764

7. Finance costs – net

	2006	2005
Interest expense:		
- borrowings	(8,981)	(1,932)
- finance leases	(53)	(50)
- other interest expenses	(146)	(62)
	(9,180)	(2,044)
Interest income	2,463	149
Other finance income (cost)	67	(73)
Net foreign exchange transaction gains/(losses)	1,523	(671)
Loss (gain) on sale of subsidiaries	101	0
	(5,026)	(2,639)

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8. Staff costs

	2006	2005
Wages	79,920	49,469
Related expenses	9,167	5,385
	89,087	54,854

Staff costs analyses as follows in the income statement:

Cost of sales	47,869	32,665
Selling and marketing expenses	17,034	8,993
Research and development expenses	10,490	6,457
Administrative expenses	13,694	6,739
	89,087	54,854

9. Income tax expense

Current tax	1,680	773
Deferred tax (Note 21)	(787)	594
	893	1,367

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

Profit before tax	1,052	7,082
Tax calculated at domestic tax rates applicable to profits in the respective countries	1,088	1,616
Permanent differences for tax purposes	(58)	(91)
Impacts from previously unrecogn. tax losses/asset not recognized and other items	(137)	(158)
Tax charge	893	1,367

The weighted average applicable tax rate was 85% (2005: 19.3%).

10. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Company and held as treasury shares.

	2006	2005
Net profit attributable to equity holders (EUR 000)	146	5,715
Weighted average number of outstanding shares in issue (thousands)	280,816	235,851
Basic earnings per share (EUR cent per share)	0.05	2.42

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company’s shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

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	2006	2005
Net profit used to determine diluted earnings per share (EUR 000)	146	5,715
Weighted average number of outstanding shares in issue (thousands)	280,816	235,851
Adjustments for share options (thousands)	17,614	4,561
Weighted average number of outstanding shares for diluted earnings per share (thousands)	284,497	240,412
Diluted earnings per share (EUR cent)	0.05	2.38

11. Dividend per share

The dividends paid in March 2006 and March 2005 were EUR 601 (EUR 0.25 cents per share) and EUR 590 (EUR 0.25 cents per share) respectively.

12. Property, plant and equipment

	Land & buildings	Plant & machinery	Vehicles & equipment	Total
At 1 January 2005				
Cost	27,153	10,963	5,518	43,634
Accumulated depreciation	(2,043)	(6,759)	(2,985)	(11,787)
Net book amount	25,110	4,204	2,533	31,847
Year ended 31 December 2005				
Opening net book amount at 1 January 2005	25,110	4,204	2,533	31,847
Exchange differences	(21)	156	251	386
Additions	743	1,137	1,872	3,752
Disposals	0	(65)	(234)	(299)
Depreciation charge	(423)	(1,023)	(998)	(2,444)
Closing net book amount	25,409	4,409	3,424	33,242
At 31 December 2005				
Cost	27,872	12,002	7,100	46,974
Accumulated depreciation	(2,463)	(7,593)	(3,676)	(13,732)
Net book amount	25,409	4,409	3,424	33,242
Year ended 31 December 2006				
Opening net book amount	25,409	4,409	3,424	33,242
Exchange differences	163	103	(123)	143
Business combinations	11,893	2,190	3,639	17,722
Additions	5,061	2,796	2,545	10,402
Disposals	(880)	(91)	(579)	(1,550)
Depreciation charge	(406)	(1,572)	(1,856)	(3,834)
Closing net book amount	41,240	7,835	7,050	56,125
At 31 December 2006				
Cost	45,813	18,078	15,750	79,641
Accumulated depreciation	(4,573)	(10,243)	(8,700)	(23,516)
Net book amount	41,240	7,835	7,050	56,125

	2006	2005
Depreciation of property, plant and equipment analyses as follows in the income statement:		
Cost of sales	2,542	1,742
Selling and marketing expenses	470	355
Development expenses	292	147
Administrative expenses	530	200
	3,834	2,444

Marel hf. Consolidated financial statements for the year 2006 Amounts in thousands of EUR

13. Intangible assets

	Goodwill	Development costs	Patents	Software	Total
Year ended 31 December 2005					
Opening net book amount	7,861	5,959	354	47	14,221
Business combination	1,740	0	0	0	1,740
Exchange differences	(21)	(4)	0	0	(25)
Additions	0	4,538	199	74	4,811
Amortisation charge	0	(2,401)	(224)	(24)	(2,649)
Closing net book amount	9,580	8,092	329	97	18,098
Year ended 31 December 2006					
Opening net book amount	9,580	8,092	329	97	18,098
Exchange differences	368	8	1	4	381
Business combination	87,169	3,868	266	346	91,649
Additions	0	6,716	710	391	7,817
Amortisation charge	0	(3,736)	(415)	(167)	(4,318)
Closing net book amount	97,117	14,948	891	671	113,627

	2006	**2005**
Amortisation of intangible assets analyses as follows in the income statement:		
Cost of sales	39	7
Selling and marketing expenses	36	6
Development expenses	4,106	2,631
Administrative expenses	137	5
	4,318	2,649

Impairment tests for goodwill
Goodwill is allocated to the Group’s cash-generating units (CGUs) identified according to operation of each entity.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates (3-5%), gross margin (33-44%) and discount rate (8-12%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

Calculations of recoverable amounts did not result to impairment of goodwill in the year 2005 and 2006.

14. Inventories

	31/12 2006	**31/12 2005**
Raw materials	30,155	12,712
Work in progress	6,340	4,239
Finished goods	16,768	8,323
	53,263	25,274

The cost of inventories recognised as expense and included in ‘cost of goods sold’ amounted to EUR 81,138 (2005: EUR 43,096).

Inventories of EUR 6,317 (2005: EUR 6,461) have been pledged as security for borrowings.

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15. Production contracts

	31/12 2006	31/12 2005
Ordered work in process	25,963	14,879
Advances received on ordered work in process	(12,845)	(5,958)
	13,118	8,921

16. Receivables and prepayments

Current receivables and prepayments:		
Trade receivables	49,887	21,233
Less: Provision for impairment of receivables	(2,581)	(748)
Trade receivables – net	47,306	20,485
Other receivables and prepayments	6,697	3,032
	54,003	23,517

The Group has recognised a loss of EUR 148 (2005: EUR 458) for the impairment of its trade receivables during the year 2006. The loss has been included in 'sales' in the income statement.

17. Cash and cash equivalents

Cash at bank and in hand	63,079	3,880

For the purposes of the cash flow statement, the cash and cash equivalents comprise the following:

Cash and bank balances	63,079	3,880

Bank overdrafts are considered to be financing activities in the cash flow statement.

18. Derivative financial instruments

	31 December 2006		31 December 2005	
	Assets	Liabilities	Assets	Liabilities
Interest-rate swaps – cash flow hedges	0	445	0	404
Forward foreign exchange contracts – cash flow hedges	883	0	18	
Total	883	445	18	404
Less non-current portion:				
Interest-rate swaps – cash flow hedges	37	0	0	404
Forward foreign exchange contracts – cash flow hedges	0	0	0	0
	37	0	0	404
Current portion	846	445	18	0

The fair value of hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedge item is more than 12 months, and as a current asset or liability if the maturity is less than 12 months.

Gain and loss in equity on forward foreign exchange contracts as of 31 December 2006 will be released to the income statement at various dates during the next 15 months from balance sheet date.

Interest-rate swaps
The notional principal amounts of the outstanding interest-rate swap contracts at 31 December 2006 were EUR 3,845 (2005: EUR 4,146).

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19. Trade and other payables

	31/12 2006	31/12 2005
Trade payables	19,989	10,916
Accruals	17,874	2,583
Deferred income	6,533	2,059
Other payables	10,465	9,161
	54,861	24,719

20. Borrowings

	31/12 2006	31/12 2005
Non-current:		
Bank borrowings	20,246	19,871
Debentures	98,700	4,284
Finance lease liabilities	798	726
	119,744	24,881
Current:		
Bank overdrafts	25,050	8,739
Bank borrowings	11,613	4,890
Debentures	1,173	5,174
Finance lease liabilities	967	459
	38,803	19,262
Total borrowings	158,547	44,143

The borrowings include secured liabilities (leases and bank borrowings) in a total amount of EUR 40,245 (2005: EUR 39,105). The bank borrowings are secured over certain of the land and buildings of the Group and over certain of the inventories. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Liabilities in currency:	Finance lease liabilities	Other borrowings	Total 31/12 2006	Total 31/12 2005
Liabilities in CAD	0	505	505	608
Liabilities in DKK	430	30,793	31,223	12,205
Liabilities in EUR	654	76,033	76,687	22,680
Liabilities in GBP	134	42,095	42,229	0
Liabilities in ISK, index linked	0	0	0	4,854
Liabilities in JPY	0	84	84	109
Liabilities in NOK	0	1,570	1,570	693
Liabilities in USD	31	2,913	2,944	2,582
Liabilities in other currency	517	2,788	3,305	412
	1,766	156,781	158,547	44,143
Current maturates	(968)	(37,835)	(38,803)	(19,262)
	798	118,946	119,744	24,881

Annual maturates of non-current liabilities:

Year 2008 / 2007	504	22,026	22,530	2,689
Year 2009 / 2008	268	3,242	3,510	2,501
Year 2010 / 2009	26	2,418	2,444	2,165
Year 2011 / 2010	0	2,411	2,411	2,131
Later	0	88,849	88,849	15,395
	798	118,946	119,744	24,881

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21. Deferred income tax

Deferred income taxes are calculated in full on temporary differences under the liability method.

The gross movement on the deferred income tax account is as follows:

1 January 2005	2,015
Exchange differences and changes within the group	(251)
Income statement charge (Note 9)	1,367
Less current tax	(773)
Tax charged to equity	(69)
End of year 2005	2,289

1 January 2006	2,289
Business combination (Note 29)	786
Exchange differences and changes within the group	206
Income statement charge (Note 9)	893
Less current tax	(1,680)
Tax charged to equity	(179)
End of year 2006	2,315

	2006	2005
The deferred tax charged/(credited) to equity during the period is as follows:		
Fair value reserves in shareholders' equity		
– hedging reserve	217	(69)

Deferred income 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 the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	31/12 2006	31/12 2005
Deferred tax assets	(1,991)	(1,231)
Deferred tax liabilities	4,306	3,520
	2,315	2,289
Deferred income tax liability (assets) analyses on the following items:		
Non-current assets	5,820	3,235
Hedge reserve	38	(110)
Taxable loss carried forward	(3,761)	(1,419)
Other items	218	583
	2,315	2,289

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. Taxable effects of losses amounting to EUR 2,198 expire in the years 2009-2016.

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22. Provisions

Warranty:	
At 1 January 2005	626
Changes entered into income statement	168
At 31 December 2005	794
At 1 January 2006	794
Business combination	737
Changes entered into income statement	(29)
At 31 December 2006	1,502

	31/12 2006	**31/12 2005**
Analysis of total provisions:		
Current	1,502	794

23. Contingencies

Contingent liabilities:

At 31 December 2006 the Group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise. In the ordinary course of business the Group has given guarantees amounting to EUR 3,307 (2005: EUR 277) to third parties.

24. Commitments and insurance

Operating lease commitments – where a group company is the lessee
The Group has made some rental agreements for building, motor vehicles and office equipment, now with the remaining balance of EUR 5,891. The amount will be charged at the relevant rental time of each agreement. The rental agreements will materialise in the years 2007 - 2012.

Insurance
The Group has bought a loss of profit insurance which will cover work stoppage for up to 12 months, based on terms of operation insurance agreement. The insurance benefits amounts up to EUR 162 million. The Group insurance value of buildings amounts to EUR 46.6 million, production machinery and equipment including software and office equipment amounts to EUR 51.1 million and inventories to EUR 63.9 million.

25. Share capital

	Number of shares (thousands)	Ordinary shares	Treasury shares	Total
At 1 January 2005	233,431	240,064	(6,633)	233,431
Treasury shares purchased	(6,127)		(6,127)	(6,127)
Treasury shares sold	10,967		10,967	10,967
At 31 December 2005	238,271	240,064	(1,793)	238,271
Issue of shares	127,017	127,017		127,017
Treasury shares purchased	(1,951)		(1,951)	(1,951)
Treasury shares sold	2,495		2,495	2,495
At 31 December 2006	365,832	367,081	(1,249)	365,832

The total authorised number of ordinary shares is 367 million shares (2005: 240 million shares) with a par value of ISK 1 per share (2005: ISK 1 per share).

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26. Fair value reserves and other reserves

	Hedging reserve	Cumulative translation adjustment	Total
Balance at 1 January 2005	(20)	(388)	(408)
Cash flow hedges:			
– Fair value gain/(loss) in period	(367)		(367)
– Tax on fair value	110		110
Currency translation differences		890	890
Balance at 31 December 2005	(277)	502	225
Cash flow/net investment hedges:			
– Fair value gain/(loss) in period	970		970
– Tax on fair value	(294)		(294)
Currency translation differences		(989)	(989)
Balance at 31 December 2006	399	(487)	(88)

27. Investments in associates

At 1 January 2006	0
Business combination	876
Additions	1
Translation difference	7
Share of results, net of tax	(1,460)
	(576)
Negative balance presented among non-current receivables	1,515
At 31 December 2006	939

28. Available-for-sale investments

At 1 January 2005	753
Impairment	(73)
At 31 December 2005	680
Impairment unwinding	64
At 31 December 2006	744

Available-for-sale investments are classified as non-current assets.

Available-for-sale investments are unlisted equity securities traded on inactive markets.

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Notes to the Consolidated Financial Statements

29. Business combination

On 7 April 2006 the Group acquired the operation of AEW Delford and subsequently established a company and on 4 August 2006 the Group acquired 100% of the share capital of Scanvaegt International A/S, manufacturer of equipment for the food processing industry. The acquired business contributed revenues of EUR 72,949 for the period from acquisition to 31. December 2006.

Details of net assets acquired and goodwill are as follows:
Purchase consideration:

- Cash paid	43,291
- Borrowings from seller	19,487
- New shares issued	44,429
- Direct cost relating to the acquisition	3,599
	110,806
Fair value of net assets acquired	(23,700)
Goodwill	87,106

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition.

The assets and liabilities arising from the acquisitions are as follows:

Cash and cash equivalents	1,158
Intangibles	4,215
Property, plant and equipment	18,045
Investments in associates	876
Receivables, non-current	116
Inventories	20,486
Production contracts	3,839
Receivables and prepayments	28,849
Borrowings, non-current	(14,199)
Borrowings, current	(12,006)
Trade and other payables	(25,854)
Provisions	(737)
Deferred taxes	(786)
Current tax liabilities	(302)
Fair value of net assets acquired	23,700
Goodwill	87,106
	110,806
Less:	
– New shares issued	(44,429)
– Borrowings from seller	(19,487)
Cash and cash equivalents in subsidiary acquired	(1,158)
Cash outflow on acquisition	45,732

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On 1 October 2005 the Group acquired 100% of the share capital of Dantech Food Systems PTE Ltd. manufacturer of freezing equipment for the food processing industry. The acquired business contributed revenues of EUR 3,284 and net profit of EUR 133 to the Group for the period from 1 October 2005 to 31 December 2005.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
– Cash paid	1,931
– Direct cost relating to the acquisition	54
	1,985
Fair value of net assets acquired	(401)
Goodwill (Note 13)	1,584

Under certain circumstances if operating goals will be reached within five years (2006-2010) a further price for the shares has to be paid in addition to the price above. Due to uncertainty at this stage, no liability is raised.

The assets and liabilities arising from the acquisition are as follows:	
Cash and cash equivalents	205
Property, plant and equipment (Note 12)	319
Deferred tax asset	167
Inventories	283
Ordered project in process	1,272
Receivables and prepayments	393
Trade and other payables	(1,785)
Borrowings	(453)
Fair value of net assets acquired	401
Goodwill (Note 13)	1,584
	1,985
Less:	
Cash and cash equivalents in subsidiary acquired	(205)
Proceeds from borrowings	(1,780)
Cash outflow on acquisition	0

The fair value of assets and liabilities arising from the acquisitions above amounted to it's book value in accordance with IFRS. Additional payment EUR 156 was granted in the year 2005 due to acquisition of Geba in the year 2004.

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30. Related party transactions

At the end of year 2006, there are no loans to directors (31 December 2005: EUR nil). In addition there were no transactions carried out (purchases of goods and services) between the group and the directors in the years 2005 and 2006.

During the year 2006, a loan amounting to EUR 8.2 million was granted to LME Eignarhaldsfélag ehf. Marel is owner of 20% of the shares in the company and the loan is convertible into shares under certain circumstances.

Management salaries and benefits for the year 2006

	Payroll and benefits [1]	Stock options [2]	Bought shares acc. to stock options [3]	Shares at year-end [2]
CEO..	569	3,971	0	1,669
Árni Oddur Þórðarson, Chairman...........................	89	0	0	108.705 [4]
Arnar Þór Másson, Board member.........................	45	0	0	20
Friðrik Jóhannsson, Board member.......................	45	0	0	0
Helgi Magnússon, Board member.........................	45	0	0	4,366
Margrét Jónsdóttir, Board member........................	22	0	0	85
Þórólfur Árnason, ex- Board member.....................	23	0	0	570
Directors in the Parent company............................	1,435	2,209	66	2,515
Ásgeir Ásgeirsson, Man. Director AEW Delford......	196	376	0	69
Lárus Ásgeirsson, Man. Director Scanvaegt...........	162	786	0	1,021
Thorkild Christiansen, Director of Carnitech...........	174	300	0	7
	2,805	7,642	66	119,027

1) Payroll and benefits for the Board members cover the year 2005 and 2006
2) Number of shares
3) All stock bought at a rate of ISK 42 pr. share according to stock option agreements.
4) Shares owned by Eyrir Invest, where Þórðarson is CEO including those of financially related parties

31. Share options

Share options are granted to directors and to employees. The exercise price of the granted options is equal to the market price of the shares on date of the grant (1 January 2001). The exercise price of the granted options in 2006 is higher than market price of the shares on the date of grant (16 February 2006). Options are conditional on the employee completing particular period's service (the vesting period). The group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Average exercise price in ISK per share	Options (thousands)
At 1 January 2005	42	7,096
Forfeited	42	(53)
Exercised	42	(2,482)
At 31 December 2005		4,561
Forfeited	42	0
Exercised	42	(1,182)
Total outstanding from 2001 at 31 December 2006	42	3,379
Granted 2006	71	14,235
At 31 December 2006	65	17,614

Outstanding options of 3,379 thousand shares from 2001 were all exercisable at 31 December 2006 and can be transferred between years but have expiry date August 2007. Outstanding option granted 2006 have expiry date 2010 plus one year in grace.

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32. Fees to Auditors

	2006	2005
Audit of financial statements	365	196
Review of interim financial statements	146	43
Other services	178	90
	689	329

The amount includes payments of external auditors of all companies within the group.

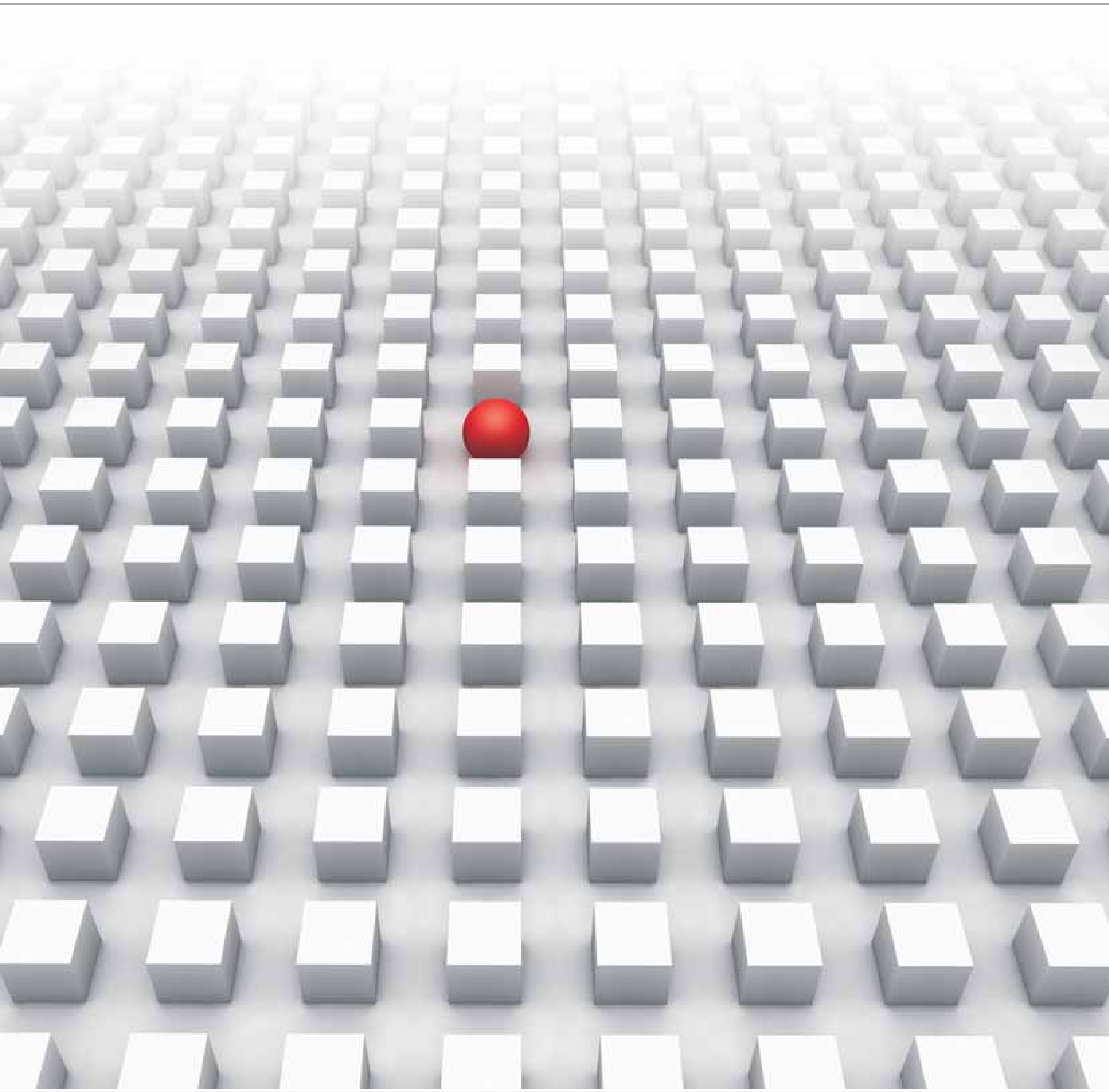
33. Principal subsidiaries

Marel Australia Pty Ltd	Australia
Marel Carnitech (Thailand)	Thailand
Marel Chile	Chile
Marel Deutschland GmbH & Co KG	Germany
Marel Equipment Inc	Canada
Marel Management GmbH	Germany
Marel Russland	Russia
Marel Scandinavia A/S	Denmark
Marel Spain	Spain
Marel UK Ltd	UK
Marel USA Inc	USA
AEW Delford Group	UK
Carnitech Group	Denmark
Scanvaegt International Group	Denmark

All subsidiaries are wholly owned. All holdings are in the ordinary share capital of the entity concerned.

Marel hf. Consolidated financial statements for the year 2006 Amounts in thousands of EUR

"The process of innovation is,
of course, never ending"
Alan Greenspan



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Interim Financial Statement - 1st quarter 2007	8 May 2007
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Interim Financial Statement - 3rd quarter 2007	7 November 2007
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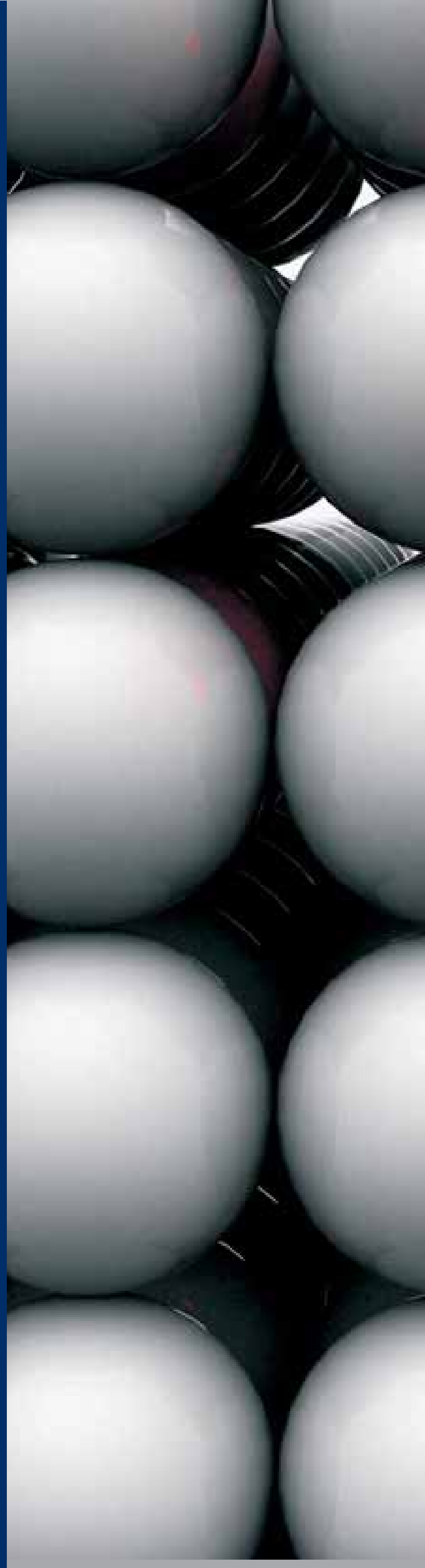

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