

Marell hf

**Consolidated Financial
Statements for the year 2006**

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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 73.2 MISK, 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.

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		<u>23,650</u>	<u>11,267</u>	<u>68,803</u>	<u>43,625</u>
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		<u>1,078</u>	<u>1,275</u>	<u>7,527</u>	<u>9,721</u>
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		<u>(422)</u>	<u>699</u>	<u>1,052</u>	<u>7,082</u>
Income tax expense	9	(93)	(120)	(893)	(1,367)
Profit for the period		<u>(515)</u>	<u>579</u>	<u>159</u>	<u>5,715</u>
Attributable to:					
Equity holders of the Company		(520)	579	146	5,715
Minority interest		5		13	
		<u>(515)</u>	<u>579</u>	<u>159</u>	<u>5,715</u>
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.

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
		<u>180,484</u>	<u>53,280</u>
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
		<u>184,309</u>	<u>61,610</u>
Total assets		<u><u>364,793</u></u>	<u><u>114,890</u></u>
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
		<u>144,378</u>	<u>41,032</u>
Minority interest		45	0
Total equity		<u><u>144,423</u></u>	<u><u>41,032</u></u>
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
		<u>124,050</u>	<u>28,805</u>
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
		<u>96,320</u>	<u>45,053</u>
Total liabilities		220,370	73,858
Total equity and liabilities		<u><u>364,793</u></u>	<u><u>114,890</u></u>

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

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.

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		<u>2,738</u>	<u>12,508</u>
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		<u>4,621</u>	<u>1,236</u>
Changes in operating assets and liabilities		<u>(5,730)</u>	<u>(9,521)</u>
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		<u>118</u>	<u>0</u>
Net cash used in investing activities		<u>(69,754)</u>	<u>(10,180)</u>
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		<u>(601)</u>	<u>(590)</u>
Net cash from financing activities		<u>132,318</u>	<u>7,210</u>
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		<u>3,880</u>	<u>4,366</u>
Cash and cash equivalents at end of year		<u>63,079</u>	<u>3,880</u>
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.

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 interpretations 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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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).

Notes to the Consolidated Financial Statements

Costs associated with developing or maintaining computer software programmes 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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

(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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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

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	<u>23,650</u>	<u>18,919</u>	<u>15,851</u>	<u>10,383</u>	<u>11,267</u>
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)	<u>1,078</u>	<u>1,671</u>	<u>4,324</u>	<u>454</u>	<u>1,275</u>
Finance costs - net	(1,264)	(1,890)	(2,013)	141	(576)
Share of results of associates	(236)	(498)	(715)		
Profit (loss) before tax	<u>(422)</u>	<u>(717)</u>	<u>1,596</u>	<u>595</u>	<u>699</u>
Income tax expense	(93)	43	(799)	(44)	(120)
Profit for the period	<u>(515)</u>	<u>(674)</u>	<u>797</u>	<u>551</u>	<u>579</u>
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)
	<u>(9,180)</u>	<u>(2,044)</u>
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
	<u>(5,026)</u>	<u>(2,639)</u>

Notes to the Consolidated Financial Statements

8. Staff costs	2006	2005
Wages	79,920	49,469
Related expenses	9,167	5,385
	<u>89,087</u>	<u>54,854</u>

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
	<u>89,087</u>	<u>54,854</u>

9. Income tax expense

Current tax	1,680	773
Deferred tax (Note 21)	(787)	594
	<u>893</u>	<u>1,367</u>

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	<u>893</u>	<u>1,367</u>

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)	<u>0.05</u>	<u>2.42</u>

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.

Notes to the Consolidated Financial Statements

	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

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

	31/12 2006	31/12 2005
15. Production contracts		
Ordered work in process	25,963	14,879
Advances received on ordered work in process	(12,845)	(5,958)
	<u>13,118</u>	<u>8,921</u>

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	<u>47,306</u>	<u>20,485</u>
Other receivables and prepayments	6,697	3,032
	<u>54,003</u>	<u>23,517</u>

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	<u>63,079</u>	<u>3,880</u>
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For the purposes of the cash flow statement, the cash and cash equivalents comprise the following:

Cash and bank balances	<u>63,079</u>	<u>3,880</u>
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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	0
Total	<u>883</u>	<u>445</u>	<u>18</u>	<u>404</u>
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
	<u>37</u>	<u>0</u>	<u>0</u>	<u>404</u>
Current portion	<u>846</u>	<u>445</u>	<u>18</u>	<u>0</u>

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).

Notes to the Consolidated Financial Statements

	31/12 2006	31/12 2005
19. Trade and other payables		
Trade payables	19,989	10,916
Accruals	17,874	2,583
Deferred income	6,533	2,059
Other payables	10,465	9,161
	<u>54,861</u>	<u>24,719</u>
20. Borrowings		
Non-current:		
Bank borrowings	20,246	19,871
Debentures	98,700	4,284
Finance lease liabilities	798	726
	<u>119,744</u>	<u>24,881</u>
Current:		
Bank overdrafts	25,050	8,739
Bank borrowings	11,613	4,890
Debentures	1,173	5,174
Finance lease liabilities	967	459
	<u>38,803</u>	<u>19,262</u>
Total borrowings	<u>158,547</u>	<u>44,143</u>

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.

	Finance lease liabilities	Other borrowings	Total 31/12 2006	Total 31/12 2005
Liabilities in currency:				
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
	<u>1,766</u>	<u>156,781</u>	<u>158,547</u>	<u>44,143</u>
Current maturates	(968)	(37,835)	(38,803)	(19,262)
	<u>798</u>	<u>118,946</u>	<u>119,744</u>	<u>24,881</u>
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
	<u>798</u>	<u>118,946</u>	<u>119,744</u>	<u>24,881</u>

Notes to the Consolidated Financial Statements

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	<u>2,289</u>
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	<u>2,315</u>

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

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	<u>4,306</u>	<u>3,520</u>
	<u>2,315</u>	<u>2,289</u>
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	<u>218</u>	<u>583</u>
	<u>2,315</u>	<u>2,289</u>

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.

Notes to the Consolidated Financial Statements

22. Provisions

Warranty:			
At 1 January 2005			626
Changes entered into income statement			168
At 31 December 2005			<u>794</u>
At 1 January 2006			794
Business combination			737
Changes entered into income statement			(29)
At 31 December 2006			<u>1,502</u>
		31/12 2006	31/12 2005
Analysis of total provisions:			
Current		<u>1,502</u>	<u>794</u>

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	<u>238,271</u>	<u>240,064</u>	<u>(1,793)</u>	<u>238,271</u>
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	<u>365,832</u>	<u>367,081</u>	<u>(1,249)</u>	<u>365,832</u>

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).

Notes to the Consolidated Financial Statements

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	<u>(277)</u>	<u>502</u>	<u>225</u>
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	<u>399</u>	<u>(487)</u>	<u>(88)</u>

27. Investments in associates

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

28. Available-for-sale investments

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

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

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

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
	<u>110,806</u>
Fair value of net assets acquired	<u>(23,700)</u>
Goodwill	<u>87,106</u>

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	<u>23,700</u>
Goodwill	<u>87,106</u>
	<u>110,806</u>
Less:	
- New shares issued	(44,429)
- Borrowings from seller	(19,487)
Cash and cash equivalents in subsidiary acquired	<u>(1,158)</u>
Cash outflow on acquisition	<u>45,732</u>

Notes to the Consolidated Financial Statements

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
	<u>1,985</u>

Fair value of net assets acquired	<u>(401)</u>
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Goodwill (Note 13)	<u>1,584</u>
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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	<u>(453)</u>
Fair value of net assets acquired	401
Goodwill (Note 13)	<u>1,584</u>
	<u>1,985</u>

Less:

Cash and cash equivalents in subsidiary acquired	(205)
Proceeds from borrowings	<u>(1,780)</u>
Cash outflow on acquisition	<u>0</u>

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.

Notes to the Consolidated Financial Statements

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 Mátsson, 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
	<u>2,805</u>	<u>7,642</u>	<u>66</u>	<u>119,027</u>

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 Eyfir 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	<u>(2,482)</u>
At 31 December 2005		4,561
Forfeited	42	0
Exercised	42	<u>(1,182)</u>
Total outstanding from 2001 at 31 December 2006	42	3,379
Granted 2006	71	14,235
At 31 December 2006	65	<u>17,614</u>

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.

Notes to the Consolidated Financial Statements

32. Fees to Auditors

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

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.