# Marel Food Systems hf

## Condensed Consolidated Interim Financial Statements 30 September 2007

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# The Board of Directors' and CEO's Report

The Board of Directors and CEO of Marel Food Systems hf hereby ratify the Condensed Consolidated Interim Financial Statements of Marel Food Systems hf for the period January 1 to September 30, 2007 with their signatures.

Garðabæ, 7 November 2007

Board of Directors

Árni Oddur Þórðarson
Arnar Þór Másson
Helgi Magnússon
Lars Gruntvigt
Margrét Jónsdóttir

Chief Executive Officer

Hörður Arnarson

# Financial Ratios

| | 2007<br>1.1-30.9 | 2006<br>1.1-30.9 | 2006<br>1.1-31.12 | 2005<br>1.1-31.12 | 2004<br>1.1-31.12 | 2003*<br>1.1-31.12 |
|---|---|---|---|---|---|---|
| **Operating results** | | | | | | |
| Sales | 210.948 | 136.754 | 208.700 | 129.039 | 112.301 | 106.104 |
| Gross profit | 72.059 | 45.153 | 68.803 | 43.625 | 41.016 | 34.617 |
| Profit before depreciation (EBITDA) | 16.139 | 11.949 | 15.679 | 14.814 | 16.527 | 10.129 |
| Profit from operations (EBIT) | 8.427 | 6.449 | 7.527 | 9.721 | 12.066 | 6.568 |
| Profit for the period | 2.693 | 674 | 159 | 5.715 | 7.984 | 3.749 |
| **Cash flow statement** | | | | | | |
| Net cash from (to) operating activities | 9.558 | (6.385) | (2.992) | 2.987 | 13.207 | 4.724 |
| Investing activities | (60.534) | (65.757) | (69.754) | (10.180) | (6.389) | (1.955) |
| Financing activities | (2.938) | 132.313 | 132.318 | 7.210 | (7.263) | (1.153) |
| **Financial position** | | | | | | |
| Total assets | 389.336 | 366.070 | 364.793 | 114.890 | 95.482 | 81.334 |
| Working capital | 30.899 | 95.874 | 87.989 | 16.557 | 19.807 | 17.700 |
| Equity | 149.972 | 144.198 | 144.423 | 41.032 | 31.595 | 25.167 |
| **Various figures in proportion to sales** | | | | | | |
| Gross profit | 34,2% | 33,0% | 33,0% | 33,8% | 36,5% | 32,6% |
| Selling and marketing expenses | 15,5% | 13,2% | 13,9% | 12,4% | 12,4% | 12,8% |
| Research and development expenses | 4,9% | 5,4% | 5,6% | 6,1% | 5,8% | 6,8% |
| Administrative expenses | 10,4% | 10,4% | 10,6% | 8,7% | 8,1% | 8,1% |
| Wages and benefits | 41,5% | 42,8% | 42,7% | 42,5% | 41,9% | 41,0% |
| Profit before depreciation (EBITDA) | 7,7% | 8,7% | 7,5% | 11,5% | 14,7% | 9,5% |
| Depreciation/amortization | 3,7% | 4,0% | 3,9% | 3,9% | 4,0% | 3,4% |
| Profit from operations (EBIT) | 4,0% | 4,7% | 3,6% | 7,5% | 10,7% | 6,2% |
| Profit for the period | 1,3% | 0,5% | 0,1% | 4,4% | 7,1% | 3,5% |
| **Other key ratios** | | | | | | |
| Current ratio | 1,2 | 2,0 | 1,9 | 1,4 | 1,6 | 1,7 |
| Quick ratio | 0,6 | 1,3 | 1,2 | 0,6 | 0,7 | 0,8 |
| Equity ratio | 38,5% | 39,4% | 39,6% | 35,7% | 33,1% | 30,9% |
| Return on owners' equity | 2,4% | 1,0% | 0,2% | 18,1% | 30,5% | 16,5% |
| Return on total assets | 1,0% | 0,4% | 0,1% | 5,4% | 9,0% | 4,6% |
| Earnings to price last 12 months | 0,00 | 0,00 | 0,00 | 0,03 | 0,06 | 0,05 |
| Price to earnings (P/E) last 12 months | - | - | - | 36,7 | 17,7 | 19,7 |

*Amounts 2003 are not in conformity with IFRS.

*Marel Food Systems hf, Condensed consolidated interim financial statements 30 September 2007* *Amounts in thousands of EUR*

# Condensed Consolidated Interim Income Statement

| | Notes | 2007 Q3 | 2006 Q3 | 2007 YTD | 2006 YTD |
|---|---|---|---|---|---|
| Sales | 4 | 66.087 | 57.648 | 210.948 | 136.754 |
| Cost of sales | | (44.215) | (38.729) | (138.889) | (91.601) |
| **Gross profit** | | 21.872 | 18.919 | 72.059 | 45.153 |
| Other operating income | | 124 | 516 | 1.269 | 1.080 |
| Selling and marketing expenses | | (10.398) | (7.387) | (32.657) | (18.095) |
| Research and development expenses | | (3.122) | (3.285) | (10.394) | (7.453) |
| Administrative expenses | | (6.711) | (7.092) | (21.850) | (14.236) |
| **Profit from operations** | | 1.765 | 1.671 | 8.427 | 6.449 |
| Finance costs - net | | (1.894) | (1.890) | (4.814) | (3.762) |
| Share of results of associates | 17 | (6.836) | (498) | (523) | (1.213) |
| **Profit before income tax** | | (6.965) | (717) | 3.090 | 1.474 |
| Income tax expense | 6 | 1.208 | 43 | (397) | (800) |
| **Net profit** | | (5.757) | (674) | 2.693 | 674 |
| **Attributable to:** | | | | | |
| Equity holders of the Company | | (5.759) | (666) | 2.698 | 682 |
| Minority interest | | 2 | (8) | (5) | (8) |
| | | (5.757) | (674) | 2.693 | 674 |
| **Earnings per share for profit attributable to equity holders of the company during the period** (expressed in EUR cent per share): | | | | | |
| - basic | 7 | (1,56) | (0,24) | 0,73 | 0,26 |
| - diluted | 7 | (1,54) | (0,24) | 0,72 | 0,26 |

The notes on pages 8-15 are an integral part of the condensed consolidated interim financial statements.

*Marel Food Systems hf, Condensed consolidated interim financial statements 30 September 2007* *Amounts in thousands of EUR*

# Condensed Consolidated Interim Balance Sheet

| | Notes | 30/9 2007 | 31/12 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 61.358 | 56.125 |
| Goodwill | 10 | 100.084 | 97.117 |
| Other intangible assets | 10 | 18.909 | 16.510 |
| Investments in associates | 17 | 1.015 | 939 |
| Available-for-sale investments | | 606 | 744 |
| Receivables | 19 | 47.904 | 7.021 |
| Derivative financial instruments | | 122 | 37 |
| Deferred income tax assets | | 3.779 | 1.991 |
| | | 233.777 | 180.484 |
| **Current assets** | | | |
| Inventories | | 64.277 | 53.263 |
| Production contracts | | 14.492 | 13.118 |
| Receivables and prepayments | | 65.552 | 54.003 |
| Derivative financial instruments | | 1.990 | 846 |
| Cash and cash equivalents | | 9.248 | 63.079 |
| | | 155.559 | 184.309 |
| **Total assets** | | 389.336 | 364.793 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of Marel Food Systems hf** | | | |
| Ordinary shares | 16 | 4.126 | 4.048 |
| Treasury shares | 16 | (38) | (3) |
| Share premium | | 118.332 | 115.369 |
| Fair value and other reserves | | 586 | (88) |
| Retained earnings | | 26.926 | 25.052 |
| | | 149.932 | 144.378 |
| **Minority interest** | | 40 | 45 |
| **Total equity** | | 149.972 | 144.423 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 12 | 108.430 | 119.744 |
| Deferred income tax liabilities | | 6.274 | 4.306 |
| | | 114.704 | 124.050 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | 78.000 | 54.861 |
| Derivative financial instruments | | 91 | 445 |
| Current income tax liabilities | | 675 | 709 |
| Borrowings | 12 | 44.236 | 38.803 |
| Provisions | 13 | 1.658 | 1.502 |
| | | 124.660 | 96.320 |
| **Total liabilities** | | 239.364 | 220.370 |
| **Total equity and liabilities** | | 389.336 | 364.793 |

The notes on pages 8-15 are an integral part of the condensed consolidated interim financial statements.

*Marel Food Systems hf, Condensed consolidated interim financial statements 30 September 2007* *Amounts in thousands of EUR*

# Condensed Consolidated Interim Statement of Changes in Equity

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Other reserves | Retained earnings | Total | Minority interest | Total equity |
| **Balance at 1 January 2006** | 2.629 | 12.671 | 225 | 25.507 | 41.032 | 0 | 41.032 |
| Cash flow hedges: | | | | | | | |
| – net fair value gain/(loss), net of tax ........ | | | 734 | | 734 | | 734 |
| Currency translation differences ............... | | | (933) | | (933) | | (933) |
| Net income/(expenses) recognised directly in equity ....................................... | 0 | 0 | (199) | 0 | (199) | 0 | (199) |
| Purchases of treasury shares ................... | (4) | (418) | | | (422) | | (422) |
| Employee share option scheme: | 0 | | | | | | |
| - value of services provided ...................... | 0 | 226 | | | 226 | | 226 |
| Dividend related to 2005 ........................... | 0 | | | (601) | (601) | | (601) |
| Profit for the period .................................. | 0 | | | 666 | 666 | | 666 |
| Issue of share capital ................................ | 1.411 | 102.045 | | | 103.456 | | |
| | 1.407 | 101.853 | (199) | 65 | 103.126 | 0 | (330) |
| **Balance at 30 September 2006/ 1 October 2006** | 4.036 | 114.524 | 26 | 25.572 | 144.158 | 0 | 144.158 |
| Cash flow hedges: | | | | | | | |
| – net fair value gain/(loss), net of tax ........ | | | (58) | | (58) | | (58) |
| Currency translation differences ............... | | | (56) | | (56) | | (56) |
| Net income/(expenses) recognised directly in equity ....................................... | | 0 | (114) | 0 | (114) | 0 | (114) |
| Business combination ............................... | | | | | 0 | 32 | 32 |
| Sale of treasury shares ............................. | 29 | 1.651 | | | 1.680 | | 1.680 |
| Purchases of treasury shares, net ............ | (20) | (1.316) | | | (1.336) | | (1.336) |
| Employee share option scheme: | | | | | | | |
| - value of services provided ...................... | | 123 | | | 123 | | 123 |
| Profit for the period .................................. | | | | (520) | (520) | 13 | (507) |
| Issue of share capital ................................ | 0 | 387 | | | 387 | | 387 |
| | 9 | 845 | (114) | (520) | 220 | 45 | 265 |
| **Balance at 31 December 2006** | 4.045 | 115.369 | (88) | 25.052 | 144.378 | 45 | 144.423 |
| Cash flow/net investment hedges: | | | | | | | |
| – net fair value gain/(loss), net of tax ........ | | | 1.255 | | 1.255 | | 1.255 |
| | | | (581) | | (581) | | (581) |
| Net income/(expences) recognised .......... directly in equity ....................................... | 0 | 0 | 674 | 0 | 674 | | 674 |
| Business combination ............................... | | | | | 0 | | 0 |
| Sale of treasury shares ............................. | (5) | 818 | | | 813 | | 813 |
| Purchases of treasury shares ................... | (30) | (2.768) | | | (2.798) | | (2.798) |
| Employee share option scheme: | | | | | | | |
| - value of services provided ...................... | | 0 | | | 0 | | 0 |
| Dividend related to 2006 ........................... | | | | (824) | (824) | | (824) |
| Profit for the period .................................. | | | | 2.698 | 2.698 | (5) | 2.693 |
| Issue of share capital ................................ | 78 | 4.913 | | | 4.991 | | 4.991 |
| | 43 | 2.963 | 674 | 1.874 | 5.554 | (5) | 5.549 |
| **Balance at 30 September 2007** | 4.088 | 118.332 | 586 | 26.926 | 149.932 | 40 | 149.972 |

The notes on pages 8-15 are an integral part of the condensed consolidated interim financial statements.

*Marel Food Systems hf, Condensed consolidated interim financial statements 30 September 2007* *Amounts in thousands of EUR*

# Condensed Consolidated Interim Cash Flow Statement

| | Notes | 2007 YTD | 2006 YTD |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit | | 2.693 | 674 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and impairment of fixed assets | 9 | 3.670 | 2.693 |
| Amortisation and impairment of intangible assets | 10 | 4.042 | 2.807 |
| Currency fluctuations and indexation | | 102 | (5.730) |
| Changes in deferred taxes | | (176) | (640) |
| Share of results of associates | | 523 | 1.213 |
| Other changes | | 115 | (337) |
| Working capital provided by operating activities | | 10.969 | 680 |
| Changes in operating assets and liabilities: | | | |
| Inventories and production contracts | | (13.298) | (9.345) |
| Trade and other receivables | | (12.471) | (3.259) |
| Current tax liabilities | | 2 | 192 |
| Trade and other payables | | 24.171 | 5.550 |
| Provisions | | 185 | (203) |
| Changes in operating assets and liabilities | | (1.411) | (7.065) |
| **Net cash from (to) operating activities** | | 9.558 | (6.385) |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiary, net of cash acquired | 18 | 0 | (45.639) |
| Purchase of property, plant and equipment (PPE) | 9 | (10.118) | (7.664) |
| Purchase of intangibles | 10 | (9.538) | (5.570) |
| Purchase of associate investments | 17 | 0 | (1) |
| Loans made to associates and other | | (41.661) | (8.223) |
| Proceeds from sale of PPE | | 783 | 1.340 |
| Net cash used in investing activities | | (60.534) | (65.757) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of ordinary shares | | 4.982 | 59.026 |
| Proceeds from (purchase of) treasury shares, net | | (2.260) | (196) |
| Proceeds from borrowings | | 15.142 | 74.441 |
| Repayments of borrowings | | (6.904) | (8.501) |
| Finance lease principal payments | | (528) | (499) |
| Changes in short-term bank loans | | (12.546) | 8.643 |
| Dividend paid to group shareholders | | (824) | (601) |
| Net cash from (to) financing activities | | (2.938) | 132.313 |
| **Net increase (decrese) in cash and cash equivalents** | | (53.914) | 60.171 |
| Exchange losses on cash and bank overdrafts | | 83 | (145) |
| Cash and cash equivalents at beginning of period | | 63.079 | 3.881 |
| **Cash and cash equivalents at end of period** | | 9.248 | 63.907 |
| **Other information** | | | |
| Interest paid | | 2.617 | 5.916 |
| Income tax paid | | 1.701 | 1.249 |

The notes on pages 8-15 are an integral part of the condensed consolidated interim financial statements.

*Marel Food Systems hf, Condensed consolidated interim financial statements 30 September 2007* *Amounts in thousands of EUR*

# Notes to the Condensed Consolidated Interim Financial Statements

## 1. General information

Marel Food Systems hf (the Company) is a limited liability company incorporated and domiciled in Iceland. The company has its listing on the OMX The Nordic Exchange in Iceland.

These condensed consolidated interim financial statements have been approved for issue by the board of directors on 7 November 2007.

## 2. Basis of preparation

These condensed interim consolidated financial statements of Marel Food Systems (the Group) are for nine months ended 30 September 2007. They have been prepared in accordance with IAS 34. The interim condensed consolidated report should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

## 3. Accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2006, as described in the annual financial statements for the year ended 31 December 2006.

## 4. Segment information

**Business segments**
At 30 September 2007, 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 nine months ended 30 September 2007 are as follows:

| | Fish | Poultry | Meat | Unallocated | Group |
|---|---|---|---|---|---|
| Total gross segment sales .................................... | 72.472 | 60.989 | 79.654 | 51.334 | 264.449 |
| Inter-segment sales ............................................. | (9.754) | (5.899) | (7.092) | (30.756) | (53.501) |
| **Sales** | 62.718 | 55.090 | 72.562 | 20.578 | 210.948 |
| Operating profit ..................................................... | | | | | 8.427 |
| Finance costs - net ............................................. | | | | | (4.814) |
| Share of results of associates .............................. | | | | | (523) |
| **Profit before tax** | | | | | 3.090 |
| Income tax expense ............................................. | | | | | (397) |
| **Profit for the period** | | | | | 2.693 |

The segment results for the nine months ended 30 September 2006 are as follows:

| | Fish | Poultry | Meat | Unallocated | Group |
|---|---|---|---|---|---|
| Total gross segment sales .................................... | 62.744 | 43.276 | 39.639 | 22.516 | 168.175 |
| Inter-segment sales ............................................. | (2.628) | (12.156) | (2.449) | (14.188) | (31.421) |
| **Sales** | 60.116 | 31.120 | 37.190 | 8.328 | 136.754 |
| Operating profit ..................................................... | | | | | 6.449 |
| Finance costs - net ............................................. | | | | | (3.762) |
| Share of results of associates .............................. | | | | | (1.213) |
| **Profit before tax** | | | | | 1.474 |
| Tax expense ......................................................... | | | | | (800) |
| **Profit for the period** | | | | | 674 |

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

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

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# Notes to the Condensed Consolidated Interim Financial Statements

## 5. Quarterly results

| | Q3 2007 | Q2 2007 | Q1 2007 | Q4 2006 | Q3 2006 |
|---|---|---|---|---|---|
| Sales | 66.087 | 72.617 | 72.244 | 71.946 | 57.648 |
| Cost of sales | (44.215) | (47.853) | (46.821) | (48.296) | (38.729) |
| **Gross profit** | 21.872 | 24.764 | 25.423 | 23.650 | 18.919 |
| Other operating income | 124 | 770 | 375 | 642 | 516 |
| Selling and marketing expenses | (10.398) | (11.751) | (10.508) | (10.990) | (7.387) |
| Research and development expenses | (3.122) | (3.631) | (3.641) | (4.291) | (3.285) |
| Administrative expenses | (6.711) | (6.733) | (8.406) | (7.933) | (7.092) |
| **Profit from operations (EBIT)** | 1.765 | 3.419 | 3.243 | 1.078 | 1.671 |
| Finance costs - net | (1.894) | (1.752) | (1.168) | (1.264) | (1.890) |
| Share of results of associates | (6.836) | 6.598 | (285) | (236) | (498) |
| **Profit (loss) before tax** | (6.965) | 8.265 | 1.790 | (422) | (717) |
| Income tax expense | 1.208 | (824) | (781) | (93) | 43 |
| **Profit for the period** | (5.757) | 7.441 | 1.009 | (515) | (674) |
| Profit before depreciation (EBITDA) | 4.614 | 5.881 | 5.644 | 3.730 | 4.094 |

## 6. Income tax expense

| | **YTD 2007** | **YTD 2006** |
|---|---|---|
| Current tax | 573 | 1.440 |
| Deferred tax (Note 21) | (176) | (640) |
| | 397 | 800 |

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 | 3.090 | 1.474 |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | 577 | 871 |
| Permanent differences for tax purposes | 14 | 308 |
| Impacts from previously unrecogn. tax losses/asset not recognized and other items | (194) | (379) |
| Tax charge | 397 | 800 |

The weighted average applicable tax rate was 12,85% (2006: 54,27%).

## 7. 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.

| | **YTD 2007** | **YTD 2006** |
|---|---|---|
| Net profit attributable to equity holders (EUR 000) | 2.698 | 674 |
| Weighted average number of outstanding shares in issue (thousands) | 367.945 | 256.533 |
| Basic earnings per share (EUR cent per share) | 0,73 | 0,26 |
| Net profit used to determine diluted earnings per share (EUR 000) | 2.698 | 674 |
| Weighted average number of outstanding shares in issue (thousands) | 367.945 | 256.533 |
| Adjustments for share options (thousands) | 4.389 | 4.208 |
| Weighted average number of outstanding shares for diluted earnings per share (thousands) | 372.334 | 260.741 |
| Diluted earnings per share (EUR cent) | 0,72 | 0,26 |

*Marel Food Systems hf, Condensed consolidated interim financial statements 30 September 2007* *Amounts in thousands of EUR*

# Notes to the Condensed Consolidated Interim Financial Statements

## 8. Dividend per share

The dividends paid in March 2007 and March 2006 were EUR 824 (EUR 0.22 cents per share) and EUR 601 (EUR 0.25 cents per share) respectively.

## 9. Property, plant and equipment

| | Land & buildings | Plant & machinery | Vehicles & equipment | Total |
|---|---|---|---|---|
| **At 1 January 2006** | | | | |
| 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 |
| **Nine months ended 30 September 2006** | | | | |
| Opening net book amount at 1 January 2006 | 25.409 | 4.409 | 3.424 | 33.242 |
| Exchange differences | 128 | (30) | (23) | 75 |
| Business combinations | 11.894 | 2.190 | 3.639 | 17.723 |
| Additions | 3.138 | 2.634 | 1.892 | 7.664 |
| Disposals | (572) | (84) | (347) | (1.003) |
| Depreciation charge | (328) | (1.137) | (1.228) | (2.693) |
| Closing net book amount | 39.669 | 7.982 | 7.357 | 55.008 |
| **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 |
| **Nine months ended 30 September 2007** | | | | |
| Opening net book amount | 41.240 | 7.835 | 7.050 | 56.125 |
| Exchange differences | (132) | (115) | (208) | (455) |
| Additions | 3.320 | 1.201 | 5.597 | 10.118 |
| Disposals | 0 | (53) | (707) | (760) |
| Depreciation charge | (391) | (1.332) | (1.947) | (3.670) |
| Closing net book amount | 44.037 | 7.536 | 9.785 | 61.358 |
| **At 30 September 2007** | | | | |
| Cost | 49.000 | 18.933 | 18.736 | 86.669 |
| Accumulated depreciation | (4.963) | (11.397) | (8.951) | (25.311) |
| Net book amount | 44.037 | 7.536 | 9.785 | 61.358 |

| | YTD 2007 | YTD 2006 |
|---|---|---|
| Depreciation of property, plant and equipment analyses as follows in the income statement: | | |
| Cost of sales | 2.354 | 1.840 |
| Selling and marketing expenses | 504 | 380 |
| Development expenses | 194 | 158 |
| Administrative expenses | 618 | 315 |
| | 3.670 | 2.693 |

*Marel Food Systems hf, Condensed consolidated interim financial statements 30 September 2007* *Amounts in thousands of EUR*

# Notes to the Condensed Consolidated Interim Financial Statements

## 10. Intangible assets

| | Goodwill | Development costs | Patents | Software | Total |
|---|---|---|---|---|---|
| **Nine months ended 30 September 2006** | | | | | |
| Opening net book amount | 9.580 | 8.092 | 329 | 97 | 18.098 |
| Exchange differences | 305 | 5 | 1 | 2 | 313 |
| Additions | 0 | 4.485 | 781 | 304 | 5.570 |
| Amortisation charge | 0 | (2.451) | (269) | (87) | (2.807) |
| Closing net book amount | 97.021 | 13.999 | 1.108 | 662 | 112.790 |
| **Nine months ended 30 September 2007** | | | | | |
| Opening net book amount | 97.117 | 14.948 | 891 | 671 | 113.627 |
| Exchange differences | (374) | (36) | (4) | 0 | (414) |
| Additions | 3.341 | 5.617 | 384 | 480 | 9.822 |
| Amortisation charge | 0 | (3.437) | (329) | (276) | (4.042) |
| Closing net book amount | 100.084 | 17.092 | 942 | 875 | 118.993 |

| | **YTD 2007** | **YTD 2006** |
|---|---|---|
| Amortisation of intangible assets analyses as follows in the income statement: | | |
| Cost of sales | 135 | 16 |
| Selling and marketing expenses | 54 | 21 |
| Development expenses | 3.728 | 2.743 |
| Administrative expenses | 125 | 27 |
| | 4.042 | 2.807 |

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.

## 11. Trade and other payables

| | **30/9 2007** | **31/12 2006** |
|---|---|---|
| Trade payables | 27.463 | 19.989 |
| Accruals | 18.613 | 17.874 |
| Deferred income | 21.278 | 6.533 |
| Other payables | 10.646 | 10.465 |
| | 78.000 | 54.861 |

*Marel Food Systems hf, Condensed consolidated interim financial statements 30 September 2007* *Amounts in thousands of EUR*

# Notes to the Condensed Consolidated Interim Financial Statements

## 12. Borrowings

| | | |
|---|---|---|
| Non-current: | | |
| Bank borrowings | 21.178 | 20.246 |
| Debentures | 86.702 | 98.700 |
| Finance lease liabilities | 550 | 798 |
| | 108.430 | 119.744 |
| Current: | | |
| Bank overdrafts | 17.083 | 25.050 |
| Bank borrowings | 6.850 | 11.613 |
| Debentures | 19.653 | 1.173 |
| Finance lease liabilities | 650 | 967 |
| | 44.236 | 38.803 |
| Total borrowings | 152.666 | 158.547 |

The borrowings include secured liabilities (leases and bank borrowings) in a total amount of EUR 44,862 (2006: EUR 40,245). 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 30/9 2007 | Total 31/12 2006 |
|---|---|---|---|---|
| Liabilities in CHF | 0 | 2.356 | 2.356 | 505 |
| Liabilities in DKK | 239 | 42.227 | 42.466 | 31.223 |
| Liabilities in EUR | 338 | 75.249 | 75.587 | 76.687 |
| Liabilities in GBP | 198 | 25.081 | 25.279 | 42.229 |
| Liabilities in JPY | 0 | 412 | 412 | 84 |
| Liabilities in NOK | 0 | 3.366 | 3.366 | 1.570 |
| Liabilities in USD | 0 | 1.352 | 1.352 | 2.944 |
| Liabilities in other currency | 425 | 1.423 | 1.848 | 3.305 |
| | 1.200 | 151.466 | 152.666 | 158.547 |
| Current maturates | (650) | (43.586) | (44.236) | (38.803) |
| | 550 | 107.880 | 108.430 | 119.744 |

Annual maturates of non-current liabilities:

| | | | | |
|---|---|---|---|---|
| Period 1/10 2008 - 30/9 2009 / year 2008 | 366 | 3.400 | 3.766 | 22.530 |
| Period 1/10 2009 - 30/9 2010 / year 2009 | 160 | 4.228 | 4.388 | 3.510 |
| Period 1/10 2010 - 30/9 2011 / year 2010 | 24 | 2.953 | 2.977 | 2.444 |
| Period 1/10 2011 - 30/9 2012 / year 2011 | 0 | 76.625 | 76.625 | 2.411 |
| Later | 0 | 20.674 | 20.674 | 88.849 |
| | 550 | 107.880 | 108.430 | 119.744 |

## 13. Provisions

| | |
|---|---|
| Warranty: | |
| At 1 January 2006 | 794 |
| Changes entered into income statement | 47 |
| At 30 September 2006 | 1.578 |
| Business combination | 0 |
| Changes entered into income statement | 156 |
| At 30 September 2007 | 1.658 |

| | **30/9 2007** | **31/12 2006** |
|---|---|---|
| Analysis of total provisions: | | |
| Current | 1.658 | 1.502 |

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# Notes to the Condensed Consolidated Interim Financial Statements

## 14. Contingencies

Contingent liabilities:

At 30 September 2007 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 21,978 (2006: EUR 745) to third parties.

## 15. 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 7,227. 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 142 million. The Group insurance value of buildings amounts to EUR 59 million, production machinery and equipment including software and office equipment amounts to EUR 48,4 million and inventories to EUR 57,7 million.

## 16. Share capital

| | Number of shares (thousands) | Ordinary shares | Treasury shares | Total |
|---|---|---|---|---|
| At 1 January 2006 | 238.271 | 240.064 | (1.793) | 238.271 |
| Treasury shares purchased | (1.951) | | (1.951) | (1.951) |
| Treasury shares sold | 1.676 | | 1.676 | 1.676 |
| At 30 September 2006 | 365.013 | 367.081 | (2.068) | 365.013 |
| Treasury shares sold | 819 | | 819 | 819 |
| At 31 December 2006 | 365.832 | 367.081 | (1.249) | 365.832 |
| Issue of shares | 6.905 | 6.905 | | 6.905 |
| Treasury shares sold (bought), net | (2.187) | | (2.187) | (2.187) |
| At 30 September 2007 | 370.550 | 373.986 | (3.436) | 370.550 |

The total authorised number of ordinary shares is 374 million shares (2006: 367 million shares) with a par value of ISK 1 per share (2006: ISK 1 per share).

## 17. Investments in associates

| | |
|---|---|
| Business combination | 876 |
| Additions | 1 |
| Translation difference | 7 |
| Share of results | (1.460) |
| | (576) |
| Negative balance presented among non-current receivables | 1.515 |
| At 31 December 2006 | 939 |
| At 1 January 2007 | (576) |
| Share of results | (523) |
| At 30 September 2007 | (1.099) |
| Negative balance presented among non-current receivables | 2.114 |
| Positive balance at September 2007 | 1.015 |

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# Notes to the Condensed Consolidated Interim Financial Statements

## 18. 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 |

## 19. Related party transactions

At the end of September 2007, there are no loans to directors (31 December 2006: EUR nil). In addition there were no transactions carried out (purchases of goods and services) between the group and the directors in the year 2006 and year to date 2007.

During Q3 2007, a loan amounting to EUR 41,4 million was granted to LME Eignarhaldsfélag ehf. Marel Food System hf is owner of 20% of the shares in the company.

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# Notes to the Condensed Consolidated Interim Financial Statements

## 20. 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 | 14.180 |
| Granted 2007 | 71 | 1.070 |
| Exercised 2007 | 42 | (3.379) |
| At 30 September 2007 | 71 | 15.250 |

Outstanding option granted 2006 and 2007 have expiry date 2010 plus one year in grace.

## 21. Principal subsidiaries

| | |
|---|---|
| Marel Food Systems Pty Ltd | Australia |
| Marel Food Systems A/S | Denmark |
| Marel Equipment Inc | Canada |
| Marel Chile | Chile |
| Marel Food Systems GmbH & Co KG | Germany |
| Marel Management GmbH | Germany |
| Marel Food Systems LLC | Russia |
| Marel Food Systems Slovakia | Slovakia |
| Marel Spain | Spain |
| Marel Carnitech (Thailand) | Thailand |
| Marel Food Systems Inc. | USA |
| Marel UK Ltd | UK |
| 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.

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