# ANNUAL REPORT 2017

# CONTENT

# TO OUR STAKEHOLDERS

## CHAIRMAN'S STATEMENT

**We are proud of the achievements of the Marel team in 2017. It was a great year with strong financial results. Revenues exceeded EUR 1 billion, operating profit margin was above 15% and net profit increased by almost 28% over 2016. Significant investments were made in strengthening Marel's foundation and important progress achieved towards our growth targets, benefitting both customers and shareholders.**

This year, Marel celebrated the 25th anniversary of its listing on NASDAQ Iceland and 2018 will mark the 35th anniversary of its founding. Those of us who have the privilege of being part of Marel today are grateful for the courage and passion of those who paved the way and laid the groundwork for our great company, a leading global provider of advanced food processing systems and services. The unprecedented speed and magnitude of change today demands no less. Courage to challenge convention and explore new directions, spot opportunities and take calculated risks to reach strategic goals. Passion in believing we can accomplish great aspirations, such as transforming the way food is processed, by continuously striving for excellence, doing more with less, being better than yesterday.

### Investing in profitable growth

At the 2017 Annual General Meeting, an ambitious growth strategy for the next 10 years was introduced. Marel targets 12% average annual revenue growth, both organic and through acquisitions. Organic growth, driven by innovation and market penetration, is expected to outstrip average market growth, and strategic acquisitions will further accelerate our full line product offering and market penetration. Earnings per share are expected to exceed revenue growth. In other words, we are investing in profitable growth.

25 YEARS LISTED ON NASDAQ ICELAND

### A strong foundation

Marel is well positioned for this journey. A broad product offering, superior technology, global presence and significant investments in our infrastructure in recent years provide a strong foundation to build on. Revenues are well diversified across business segments and geographies. Digitalization and further automation present new opportunities to work with our customers to advance food processing. Marel's Innova food processing software has already been installed in over 1,800 plants worldwide and offers countless opportunities.

### Capital structure and distribution of profits

Marel's financial position is strong. In 2017, EUR 15.3 million were paid in dividends to shareholders, treasury shares were purchased amounting to EUR 63.5 million and Sulmaq in Brazil was acquired for a combination of cash and treasury shares. Significant investments were made in solidifying the company's footing as a global leader in its field and preparing for its future growth, including investments in: innovation; taking IT to the next level; expanding our existing manufacturing facilities; and improving the working environment of our employees. Strong operating results and debt reduction resulted in a leverage of 1.9 times debt to EBITDA at the end of the year, which is just below the lower end of the 2-3 times targeted leverage ratio.

In line with our capital allocation and dividend policy, the Board of Directors will propose to the 2018 Annual General Meeting that a dividend of EUR 4.19 cents per share, corresponding to 30% of net profits for 2017, be paid to shareholders. Furthermore, the Board of Directors has authorized the purchase of treasury shares of up to 20 million nominal value, which can be used as payment for potential future acquisitions.

DIVIDENDS FOR 2017

30%

OF NET PROFIT

Since its listing, Marel has created excellent value for shareholders. In 2017, the share price increased by close to 33%, measured in Icelandic krona, and 27% measured in euros. The number of shareholders increased from 1,907 to 2,206.

## Corporate social responsibility

Marel's Board of Directors is committed to good corporate governance and ethical business practices, promoting the long-term interests of shareholders. We strive to be a good corporate citizen. We emphasize corporate social responsibility not least because we are convinced it is good business. A good reputation, responsible use of resources, taking care of the environment and having employees who take pride in their work is good business.

To guide the organization on responsible conduct, Marel has established a policy on corporate social responsibility, which focuses on three areas: people, planet and profits. We are a signatory of the United Nations' Global Compact and participated in NASDAQ's Sustainable Markets Initiative in 2017. We are proud of the advancements made in corporate social responsibility reporting during the year and will continue on that journey in 2018.

LARGEST COMPANY ON NASDAQ ICELAND

WITH MARKET CAPITALIZATION OF EUR 1,9BN

APPROXIMATELY

2,200

SHAREHOLDERS

## Shared value creation

Calls for rethinking the role of businesses in society grow ever louder. Companies are continuously being pressured to play a more prominent role in addressing social challenges. The demand for greater private sector involvement in achieving the United Nations' Sustainability Development Goals is a good example. The combined forces of public, private and civil actors are necessary to achieve the required scale and impact.

The immense societal challenges of sustainably feeding the world's growing population can only be addressed with technology, innovation and changes in behavior. We simply must find ways to do more with less. This is the core of Marel's business; increasing yields and quality, optimizing the use of scarce resources such as water and energy, increasing food safety and traceability, as well as improving employee satisfaction and animal welfare.

Our business is about creating economic value that also makes a positive contribution to society. In partnership with our customers we are transforming the way food is processed. Our vision is of a world where quality food is produced sustainably and affordably.

On behalf of the Board of Directors, I congratulate the Marel team on their impressive results and achievements in 2017. We express our recognition of their dedication and hard work. We fully appreciate the continuing commitment and support of our shareholders.

Asthildur Otharsdottir,
Chairman of the Board

REVENUES

EUR 1 bn

## CHIEF EXECUTIVE OFFICER'S REVIEW

**I would like to begin by expressing my gratitude for the continuing trust and support of our shareholders, customers, partners and employees. Together we are transforming the way food is processed.**

Marel is a global leader in a dynamic growth industry with over EUR 1 billion in revenues and an EBIT margin of 15%. Our team of 5,400 dedicated members, located in more than 30 countries, serves poultry, meat and fish processors that have operations in more than 100 countries. Our core values are Unity, Innovation and Excellence. Our vision is of a world where quality food is produced sustainably and affordably.

### Robust operational performance

In transforming the way food is processed we have also been growing and advancing Marel as a company. We are proud of our 2017 results with revenues of EUR 1,038 million and operational profits of 15.2%. Revenues are up by 6% year-on-year and we have now been operating at EBIT level of around 15% for eight consecutive quarters. With an innovative portfolio and continued good partnerships with our customers we had a record order intake of EUR 1,144 million in 2017, up 13% over last year.

The strong cash flow from our operations enables us to invest in a stronger infrastructure to prepare for the future.

In the past two years we have also acquired two companies, MPS and Sulmaq, at a cost of over EUR 400 million without requesting any additional equity contribution from investors. We have continued to invest around 6% of revenues in innovation and have purchased our own shares and paid dividends in line with our long-term strategy. The financial position is strong at year-end with around two times net debt to EBITDA.

We are entering 2018 with a strong order book equaling to 45% of trailing twelve-month revenues.

### Clear vision and gradually expanding playing field

In our everyday work we are guided by our clear vision and set of values. Our playing field has been gradually expanding and our business operations continuously improved, reflecting our core value of Excellence.

Our playing field has expanded from its original focus solely on yield and throughput in the Icelandic fish sector to become the global leader of today, serving poultry, meat and fish processors from post-farm gate to dispatch of final products. The emphasis is on increased value, quality, safety and sustainability of production, in addition to high yield and throughput. Innovative solutions that have recently been introduced also focus on taking animal welfare to new standards.

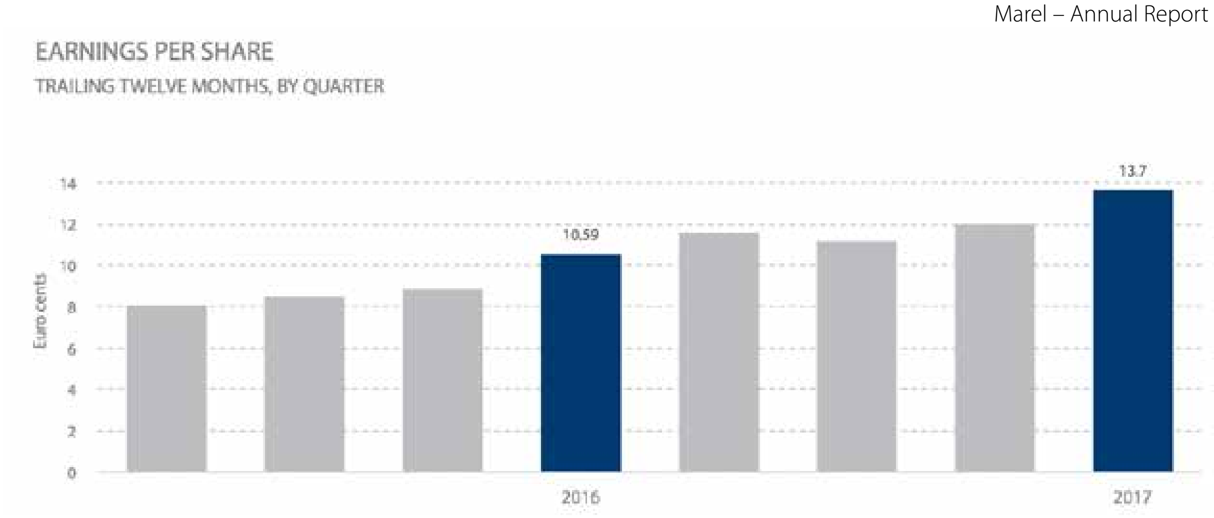
The Sulmaq acquisitions closed successfully in August 2017 and I would like to restate my welcome to the Sulmaq team. Most of our acquisitions have been focused on closing application gaps in our full-line offering, in particular Scanvaegt, Stork and

ORDER BOOK

**EUR 472m**

INNOVATION INVESTMENT IN 2017

**EUR 58m**




most recently MPS in 2016. A key driver behind the Sulmaq acquisition was to gain foothold in the rapidly growing markets of South and Central America and get access to the talent pool in those markets. Today the US and Canada, with 360 million inhabitants, account for around 30% of our revenues while Latin America, including Mexico with 640 million inhabitants, accounts for around 8% of our revenues. We are already well established in the poultry and fish industries and will continue to strengthen our position in the meat market.

## High quality of earnings

Our customers range from small food processors to global leaders in the field. Our customer base is well diversified with no single customer accounting for more than 4% of annual revenues. Our revenues are well balanced geographically, consisting of a healthy mix of greenfield projects, modernization and extension projects with steady recurring revenues coming from our maintenance business.

29% INCREASE IN EARNINGS PER SHARE BETWEEN 2016 AND 2017

We have prioritized investments and strengthened processes to be better able to deliver complex solutions to customers with the right quality at the right time. As evidence of our commitment to return value to our shareholders, earnings per share increased by 29% year-on-year.

## Marel connects the dots

Indeed, some 60 million people are becoming new active consumers every year due to rapid urbanization and improved economic prospects. Consumers are demanding quality food at affordable prices. In developing as well as developed markets, consumers seek to increase their consumption of proteins and vegetables at the cost of simple sugars and grains. Marel is positioned at the center point of these prevailing trends.

Marel is also situated at a crucial point in the value chain when it comes to data collection. Connectivity of our processing equipment has been a key element in Marel innovation from the very beginning, helping our helping customers connect the dots.

By collecting and storing equipment information, Innova's advanced analytics software can translate data into action, thereby enabling new services and new experiences for our customers.

Innova enables processors to maximize yield and throughput and ensure food safety, with traceability built into every step of the process. Our passion for innovation is driving new integrated technologies and improving resource efficiency. To that end, Marel's software is a key element in harnessing the potential of digitalization and the Internet of Things.

## A compelling growth story

Marel shares were initially listed on the Icelandic Stock Exchange in 1992. In the 25 years since listing, annual compounded growth has been over 20% and our earnings quality is strong. The outlook is promising and in 2017 we introduced an ambitious growth plan for the next ten years with a target of 12% average annual growth. Organic growth is driven by innovation and market penetration which is complimented by strategic partnerships. We have a compelling equity story.

## Food is our passion

Marel is a global leader in providing advanced solutions and services for the poultry, meat and fish industries. It is energizing to work with all of Marel's talented and dedicated employees and on behalf of the team I would like to thank our customers for their partnership contribution that is a cornerstone of our success. Together, we are advancing food processing.

We are firmly committed to delivering increased value to our society, customers and shareholders by enhancing safe and sustainable food processing. That is our passion.

Arni Oddur Thordarson,
Chief Executive Officer

# MAREL IN BRIEF

# WHO WE ARE

## FOUNDED IN 1983
LISTED ON NASDAQ ICELAND IN 1992

### GLOBAL COMPANY

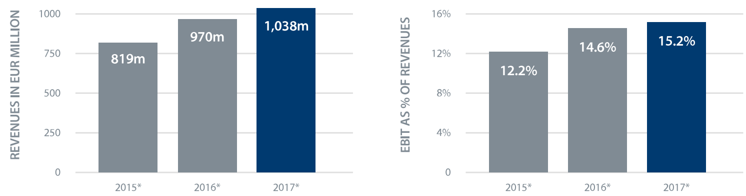
Marel is a leading global provider of advanced processing systems and services to the poultry, meat and fish industries

**5,400** EMPLOYEES

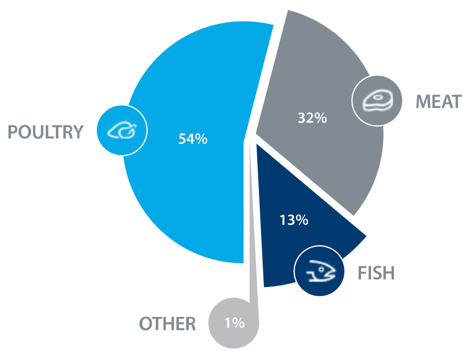
**30+** COUNTRIES

**100** PARTNERS

## REVENUES & EBIT




## REVENUES BY INDUSTRY




ORDER BOOK
**EUR 472m**

INNOVATION INVESTMENT IN 2017
**EUR 58m**

## SALES & SERVICE OPERATIONS

## VISION AND VALUES

# UNITED UNDER **ONE VISION** AND **ONE SET OF VALUES**

In partnership with our customers
we are transforming the way food is processed.
Our vision is of a world where quality food
is produced sustainably and affordably.

**UNITY**
We are united in our success

**INNOVATION**
Innovation drives the value we create

**EXCELLENCE**
Excellence is what differentiates us

# BUSINESS MODEL

**An innovative, high-tech approach has brought Marel to the forefront of the food processing equipment industry. As a leader in the field, we provide advanced equipment and systems to the fish, meat and poultry industries around the world. Our business model is to maintain a good balance across our industry segments and geographies.**

## We design and make food processing solutions

Our customers are predominantly companies using advanced and high-end equipment; we serve producers looking to increase the automation of their production processes.

We give them full control over their production with Innova, our advanced, overarching food production software. As our lines are high-tech, software is an integral part of optimizing production.

Seamless flow and integration between different applications result in higher overall efficiency and production capacity.

We have a dedicated team of 5,400 employees working in subsidiaries and offices in over 30 countries around the world. We also enhance our local presence with a network of over 100 agents and distributors.

Our customer base includes most of the world's blue-chip food processors. Our partnerships are strong, built on co-operation and teamwork across industries and geographies.

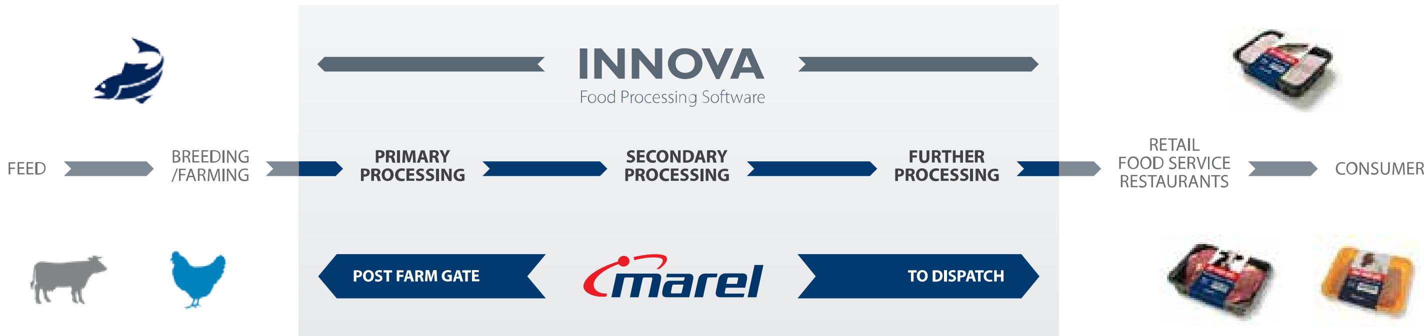
Marel's playing field is gradually expanding to cover the entire production process from farm to fork and from catch to consumer.

## Strong culture of innovation

We are a company defined by our dedication to innovation, reflected in our extensive R&D investment. Marel began as an idea at the University of Iceland in 1977 and innovation is and has always been at its heart. We invest around 6% of revenues in research and development annually, which translated into EUR 58 million in 2017.

Our approach to innovation is not limited to mechanical engineering to optimize the performance of each application, but also encompasses integrated technologies and connectivity. Data analytics and software control are becoming increasingly important. From the start, we have bundled software and equipment together. Today, Marel is the center point of information gathering for one of the most important value chains in the world.

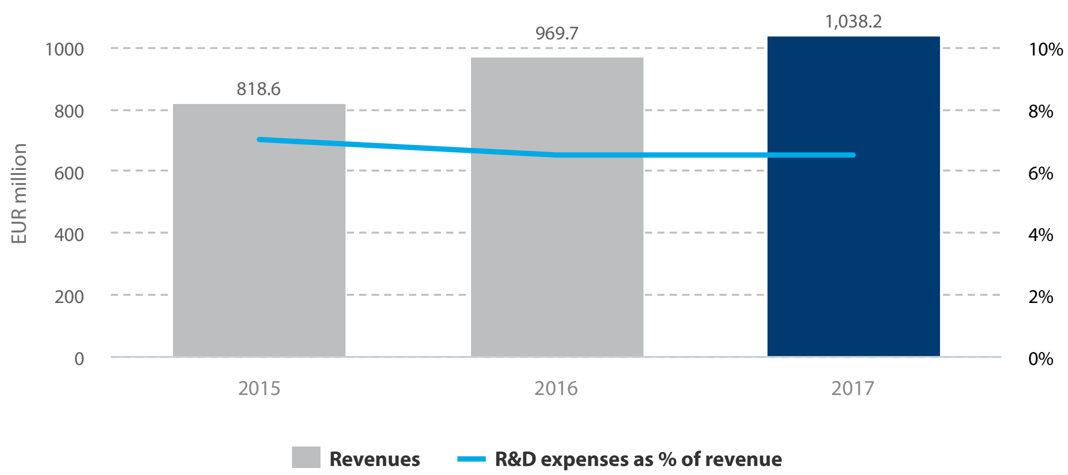
Marel is also known for applying its technology across industries. In 2017, we continued to leverage our strong innovation investments in one field to successfully develop solutions for other protein product groups, across processes and geographies.



## OVER EUR 58 MILLION
INVESTED IN INNOVATION IN 2017

## INNOVATION THROUGH PARTNERSHIP
WITH KEY PLAYERS

RESEARCH AND DEVELOPMENT EXPENSES




### Three key industry segments
At Marel we focus our efforts on our three main industries of operation; poultry, meat and fish. Our teams analyze trends and anticipate processing challenges, enabling us to stay on top of market conditions and changes in the industries we serve.

Marel Poultry, Marel Meat and Marel Fish are constantly working on new ways to improve existing processes, increase automation and streamline product processing.

### Marel Poultry
Marel Poultry offers the most complete product range and has the largest installed base worldwide. We provide in-line poultry processing solutions for all process steps and all processing capacities for broilers, turkeys and ducks.

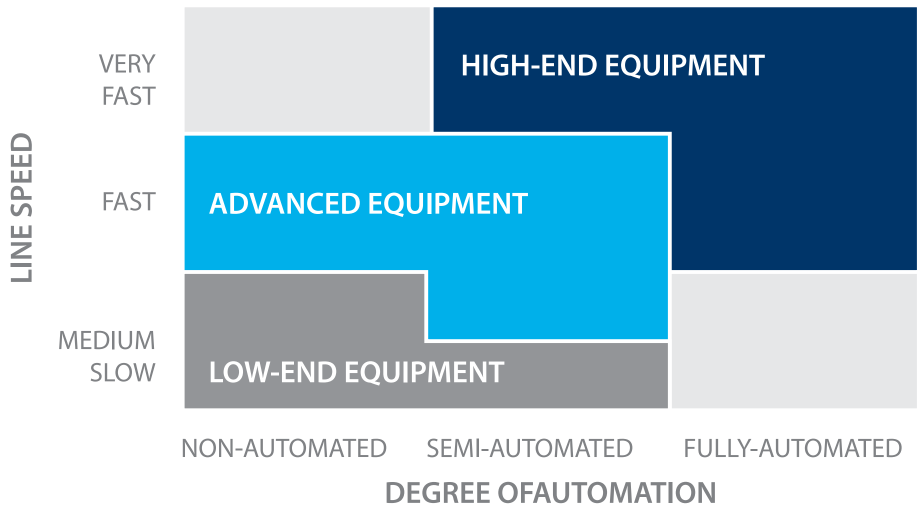
### Marel Meat
Marel Meat supplies advanced equipment and systems to the red meat industry. We focus on slaughtering, deboning and trimming, case ready and food service solutions. Our aim is to be a full-line supplier from farm gate to finished pack.

### Marel Fish
Marel Fish is the leading global supplier of advanced stand-alone equipment and integrated systems to the fish industry. We provide innovative equipment, systems and software for processing whitefish and salmon, both farmed and wild, onboard and ashore.

## Customer focus

Our strong and long lasting relationships with our customers form the bedrock of our business model. We're here to partner with our customers. Together we innovate and create products that set new benchmarks in the industry and achieve continuous improvements in line with our customer needs.

We expect automation in food processing to increase steadily, especially in emerging markets. This means higher growth in advanced and high-end segments of the food processing equipment industry. Our expertise in this segment focuses on helping customers become more efficient, more sustainable, more profitable and get more from their businesses. This shared success creates higher margins and better value, both for our customers and for Marel.




## Sales and service network

Marel's extensive sales and service network, spread out across more than 30 countries on all continents, is a key competitive edge. The network is Marel's first line of contact for customers at the local level. It brings first-rate service, consistency and continuity to our partnership with our clients.

We serve a diverse customer base around the world. Our professional team of field service engineers ensures the uptime and reliability of our large installed base. Service level agreements, a dedicated service commitment and our track record have translated to strong customer loyalty and repeat business.

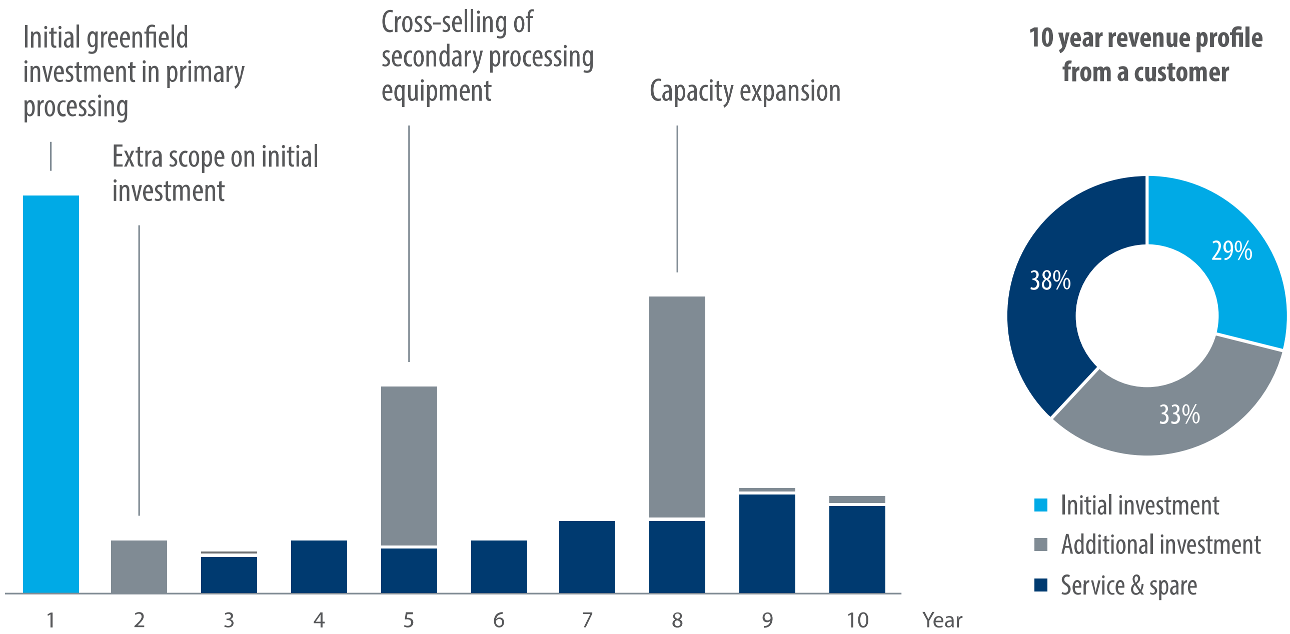
- Sales and service in over 30 countries
- Global sales organization of over 500 employees
- Global service organization of over 1,000 full time equivalent employees

## Customer collaboration

As a high-tech provider at the forefront of the industry, we have built strong customer relationships based on collaboration and partnership. Our cooperation with customers in terms of innovation, new projects and process improvements further supports our ability to transform the industry and increase customer value in the advanced and high-end segments.

This example of a ten-year relationship with a customer in the meat industry is a good indicator of how we do business. It is also a good reflection of our revenue mix, where greenfields, maintenance and service and spare parts account for around a third each.

- Customer starts in primary processing and then expands into secondary processing.
- After-sales revenue from spare parts and service starts around year three.




## A balanced revenue stream and high quality of earnings

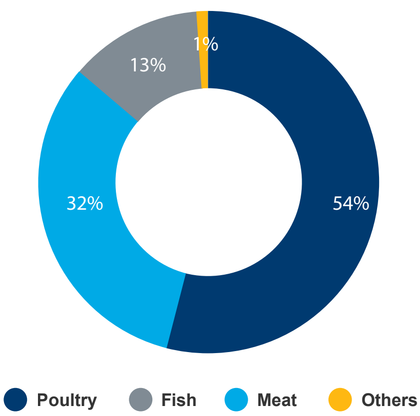
Our customers' access to raw material and their requirements for optimal yield are some of the key factors influencing our production. We are constantly pushing technological boundaries to meet their needs.

Marel's presence in multiple protein segments serves as a countercyclical buffer. It gives us flexibility and the opportunity to transfer technical know-how, solutions and expertise across borders, both industrial and geographical. We strive to capitalize on the technological advances made in one sector by implementing them in another.

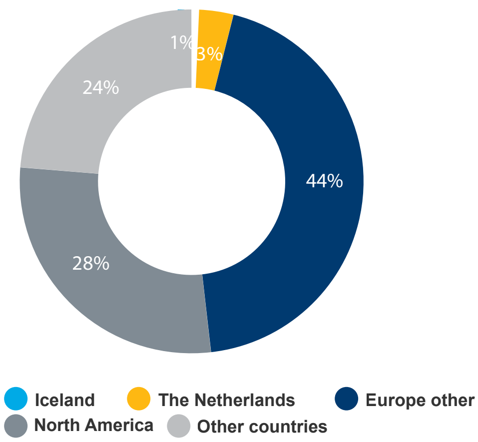
Our main revenue stream drivers are both turnkey projects, encompassing brownfields, greenfields, modernization and maintenance, and the production of modular, standard equipment and processing lines. The stand-alone, modular portfolio is the building block for larger projects and the entry point for new customers.

Our installed base is large and growing, effectively driving our resilient service and parts revenues.

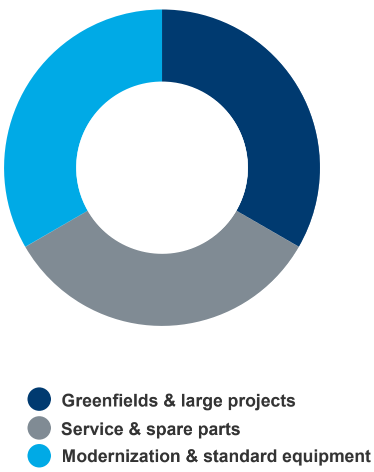
REVENUES BY BUSINESS SEGMENT




REVENUES BY REGION AND COUNTRY




REVENUES BY BUSINESS MIX




# STRATEGY

**Marel has set a target of 12% average annual revenue growth for 2017-2026, both organic and through acquisitions. Our growth plan involves capitalizing on our strong R&D investment to drive growth and market penetration. We will also focus on strategic partnerships and acquisitions to fill gaps in the value chain, and to accelerate our full-line product offering and market penetration.**

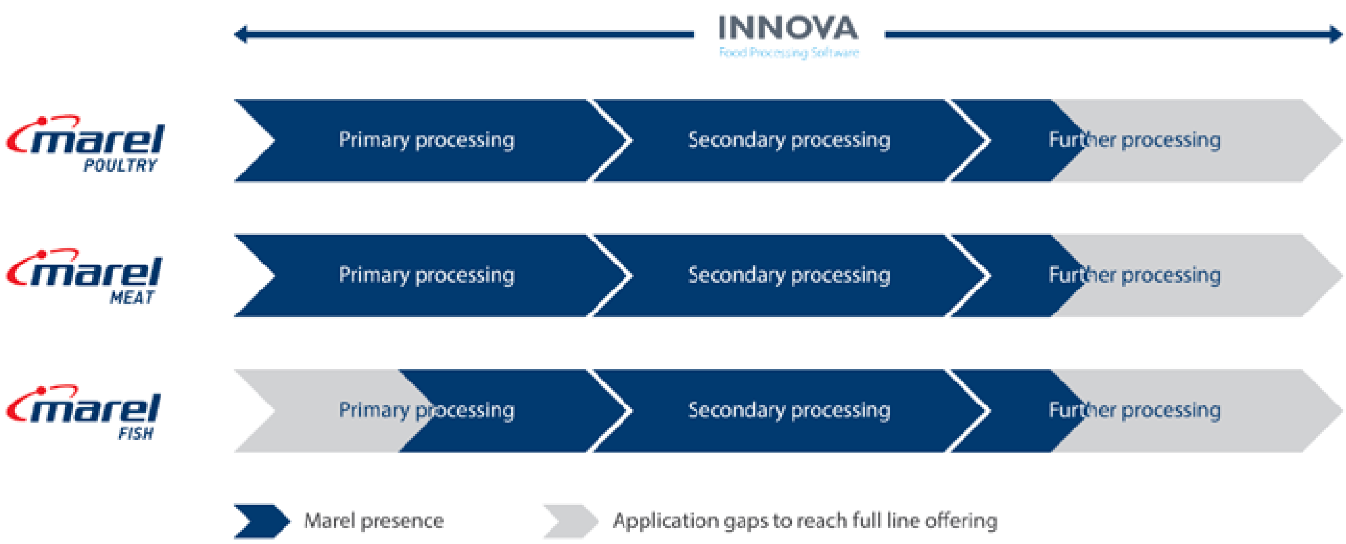
## Leading global provider of systems and services

Marel's strategic objective is to be a full-line provider to the poultry, meat and fish industries. Our focus is to bring our advanced, automated systems and solutions to every step of the production process and cover the relevant geographical areas in our industries. Strong organic growth and strategic acquisitions have helped make Marel a leader in its field.

Our full-line approach includes standalone equipment, individual systems and full production lines all controlled and integrated with Innova, our overarching software solution.

This offers our customers process control, real-time traceability and monitoring of throughput and yield that is hard to replicate. Seamless flow and integration between different applications result in higher overall efficiency and improved yield. Marel has thus become a one-stop shop for the customer from an equipment, software and service standpoint.

In line with our growth strategy, we have actively reinforced our value chain in recent years. We will continue to fill the remaining application gaps in our value chain through innovation, organic growth, strategic partnerships and acquired growth.



## Investing in growth

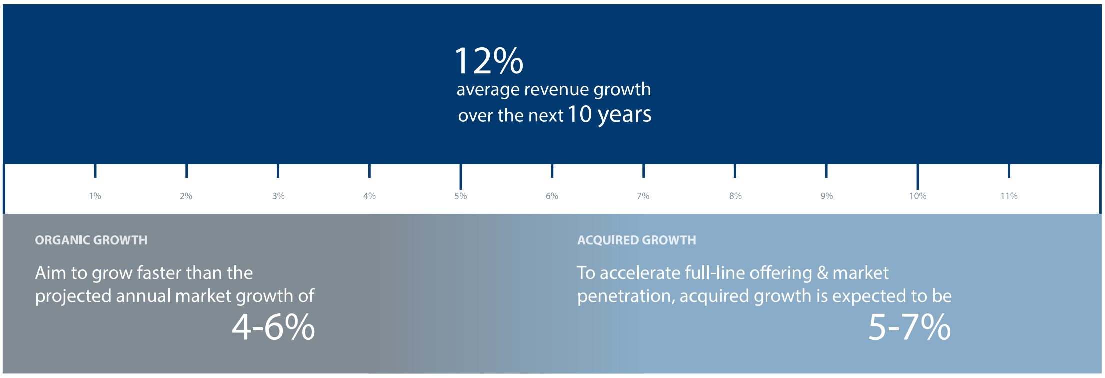
Marel aims to achieve an average of 12% annual revenue growth in the next decade. Around a third of this will be organic growth and two-thirds will be acquired growth.

**Organic growth**

The market for food processing equipment is expected to grow 4-6% annually on average in the long term. Driven by our extensive innovation investment and market penetration, we aim to grow organically faster than the market.

**Acquired growth**

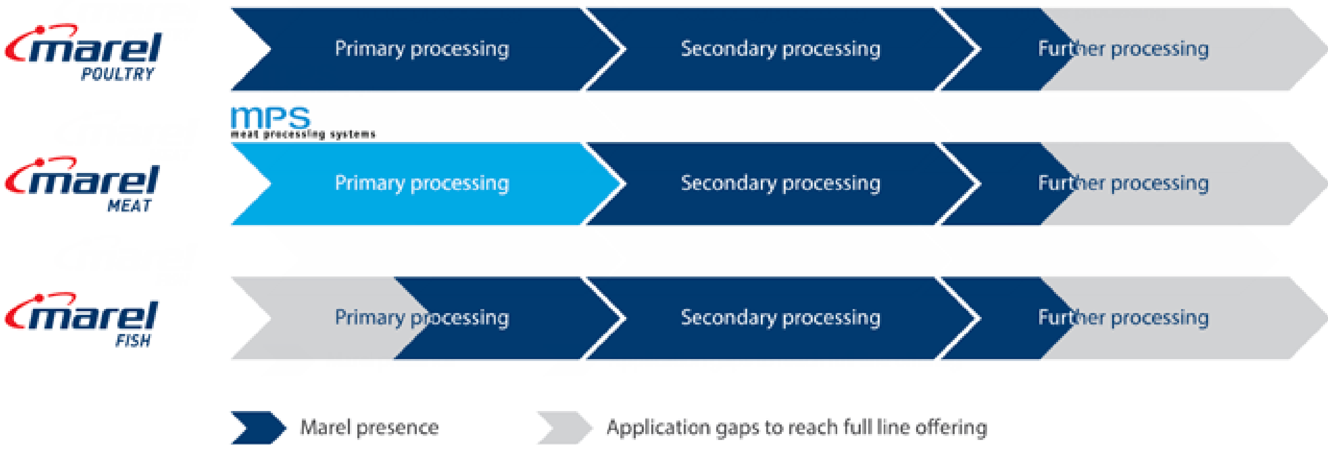
We will also supplement our full-line offering and accelerate market penetration through acquisitions. We believe our solid operational performance and strong cash flow can support 5-7% revenue growth on average through acquisitions. Growth will not be linear but reflect opportunities and economic fluctuations.




## A good example: how Marel fills value GAPS

**Acquisition of MPS paved the way for entry into primary meat processing**

- Marel became a full-line provider to the meat industry
- Complementary geographical presence and product portfolio
- Integration is proceeding well with all meat solutions united under the Marel Meat brand



## A good example: how Marel improves the geographical footprint

**The acquisition of Sulmaq strengthens Marel's market presence in Latin America.**

- IImproved foothold in the rapidly growing meat market in South and Central America
- Strong customer relationships enable further sales of complementary equipment
- Solid workforce with strong engineering know-how
- Future manufacturing hub that can be scaled to support the region


## Strong cash flow supports future growth

Our solid revenue growth and strong cash flow have made it possible to make a significant investment to support organic growth by innovation, advancing our manufacturing facilities and updating our IT platform across geographies. It has also allowed Marel to undertake strategic acquisitions that have closed application gaps in our value chain or complimented existing product portfolio.

The recent acquisitions of MPS and Sulmaq in 2016-2017 were financed with support from our banking partners, our strong operational results and cash flow without issuing new shares. It is also worth noting that Marel undertook no new loans to finance the the acquisitions of Sulmaq.

The Scanvaegt and Stork Food Systems acquisitions in 2006-2008 were financed with an equity contribution of EUR 268 million.

REVENUES FROM 2005 TO 2017

20% CAGR (7% ORGANIC CAGR)

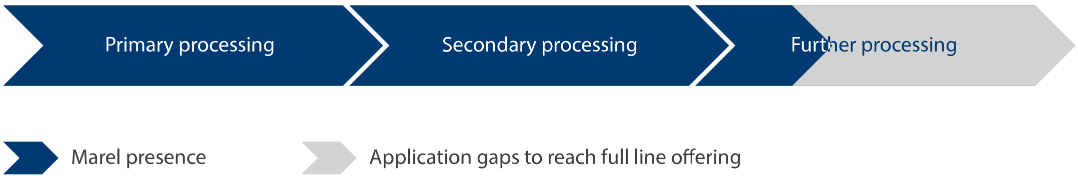
# DELIVERING GROWTH

POULTRY
54%
OF REVENUES

## POULTRY

**The poultry industry is one of our three key protein industries at Marel. With the most complete product range and the largest installed base worldwide, Marel Poultry is a leading global provider of advanced food processing systems and services for broilers, turkeys and ducks. Marel Poultry contributed EUR 560 million in revenue in 2017, or 54% of total revenues, translating to an EBIT of 19.5%.**

The consumer value of the global poultry, meat and fish market is currently estimated to be around EUR 1,200 billion, with the poultry market accounting for EUR 400 billion. More specifically for Marel, the market for food processing equipment for poultry, meat and fish and its maintenance is estimated to be around EUR 10 billion. Of this, poultry processing equipment is estimated to be around EUR 3 billion – and is expected to grow annually by 4-6%.




## Overview

The year 2017 saw Marel Poultry go from strength to strength. Our state-of-the-art, high-tech processing systems supported our strong position in the market. Our teams worked diligently on maintaining both our good customer connections and our innovative, solid equipment offering. The most prominent trend we saw in the dynamic 2017 market was the diversification in broiler breeding, as the concept chicken gained considerable ground on the high feed-to-meat ratio broilers that have been the standard in previous decades. The concept chicken is a slower growing – sometimes heritage – breed that is organic and marketed under names like 'Better Life', 'Chickens of Tomorrow' or 'Label Rouge' in Europe. The same trend has been seen in the US, while the Chinese market still prefers the standard yellow broilers.

**Production flexibility**

The increasing focus on sustainability in "local breeding and eating", means that current processing facilities need to be able to receive and process a more diverse range of birds, both in terms of size and weight. To meet this requirement, Marel Poultry has focused on helping processors become more flexible than ever. Our solutions are designed to provide not only the throughput, yield and quality that the market demands but also ensure the diversity and flexibility needed for current processing challenges.

**Strengthening partnerships**

Faced with the need for greater investments in advanced food processing equipment and systems, the poultry industry requires partners who are ready to listen to and work with them; partners that can offer the technology that delivers the throughput, quality and yield they need. Marel Poultry has proven to be that partner.

## Products

Sales were good in 2017. Our approach is always customer-oriented, aimed at preparing our clients for the future. Driven by strong product development, we saw our regular sales grow significantly. In addition, Marel was also involved in large, greenfield projects and strengthening partnership initiatives.

**The big picture**

Our upselling strategy worked well for both Marel Poultry and our customers in 2017. Marel Poultry always keeps the big picture in mind when selling solutions. It matters to us that our customers can seamlessly integrate the machinery they purchase and easily add new equipment to their line when they see the benefits of the initial installation. Our systems are designed to make these additions smooth and easy to perform. Upselling from a standalone machine to a completely new department is no exception.

**A synergistic vision**

Marel emphasizes the synergies arising from transferring methodologies and solutions across industries. Our logistics and overhead deboning systems are great examples of just this. Developments in logistic solutions initiated by Marel Poultry are now welcomed by other industries. The modular configuration of our SystemFlex intelligent conveyor system has been widely acclaimed in the poultry industry. This new logistic concept has taken automation to a completely new level and found its way across industry boundaries. The same goes for the overhead conveyor deboning process. Originating in the poultry industry's FHF and AMF deboning systems, the DeboFlex meat solution adopted the same inline processing concept.

EU HAS OVERTAKEN CHINA
AS THE WORLD'S 3RD LARGEST PRODUCER
OF CHICKEN AFTER THE US & BRAZIL

## Innovation

We are constantly seeking ways to automate the production process. In 2017, Marel Poultry rolled out its first ATLAS supply system. Developed to offer full control of all aspects of live bird handling, the system operates in an efficient yet humane manner to ensure animal welfare. Its connection to the CAS SmoothFlow anesthetization is superior to that of all other existing systems. When it comes to animal welfare, the induction phase is the most important of all. Together, ATLAS and CAS SmoothFlow ensure that the slaughtering process is humane and complies with most halal requirements.

**Adaptive automatic filleting**

The new AMF-i breast filleting solution is the result of continuous development. This year we saw it reach a new level of perfection, thanks to its added intelligence.

Now the measurement unit of the AMF-i system automatically detects changing dimensions in incoming products. It sends its instructions to the downstream modules, which auto-adjust their settings accordingly for adaptive automatic filleting. The result is accurately filleted breast caps without human intervention.

AMF-i produces a wide range of breast fillet products for retail and industrial customers and harvests valuable by-products.

**The high-tech heart of poultry Processing**

In 2017, we highlighted the fact that processors at all stages of automation benefit from the Innova Food Production Software. The software is always promoted in tandem with relevant products, enabling us to display its benefits to a broad customer base over the course of the year. Our customers require the process control and monitoring that Innova provides.

The Innova IMPAQT (Intelligent Monitoring of Performance, Availability and Quality Trends) module has been extremely well received, as customers find that it is more than just an Overall Equipment Effectiveness (OEE) application. It far exceeds the usual functionalities of OEE software by pinpointing exactly the reasons for any production losses or variations in processing in real-time.

**Creating first-grade thigh meat**

Consumers are no longer content with using only the breast meat of carefully reared chicken and underrating the rest of the bird. Given the increasing attention being paid to sustainable production, it is entirely logical to add as much value as possible to each part of the chicken. Which is why the Marel Poultry Thigh Fillet System perfectly matches sustainability goals.

Deboning the thigh meat upgrades it to retail class A quality, equal to a breast fillet. Processors no longer need to downgrade leg meat, freeze it and ship it as a low-priced by-product. With our system, they can add optimal value to benefit both their production and their customers.

## Projects

Some of our largest projects involved supermarkets around the world that are looking for complete vertical integration to keep production of primary products in their own hands. To gain full control of their value chain these companies are building their own poultry processing facilities. Our customer Coles was the first one to establish its own processing plant in Australia and others have followed suit.

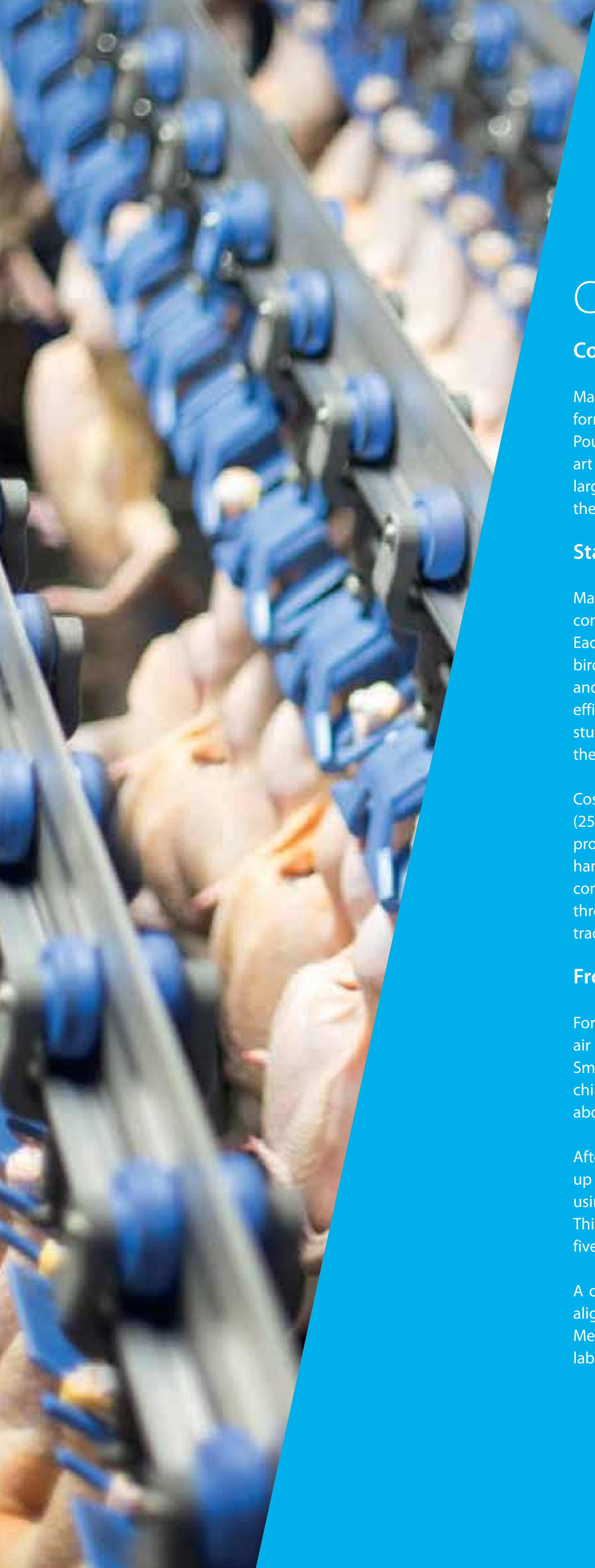
**New Costco Greenfield project**

In 2017, Costco Wholesale in the US planned a USD 300 million chicken processing facility in Fremont, Nebraska. Costco teamed up with Marel Poultry to realize this huge, hypermodern greenfield project. It heralds the first US installation of the ATLAS system with the CAS SmoothFlow stunning application. The facility will also include a complete Marel Poultry evisceration department, a shock/maturation air-chilling tunnel, two distribution lines with SmartWeigher and IRIS, deboning with AMF-i and SensorX quality control.

The entire factory will be tied together with our Innova Food Processing Software, a fully integrated production control and monitoring system that gives real-time overview of the entire process.

**Modernization in the Polish poultry industry**

Poland remained the leading producer of poultry meat in the European Union in 2017. Our efforts in 2017 resulted in Marel Poultry becoming the poultry processing equipment supplier with the largest market share in the country. We secured orders from several leading Polish companies, which intend either to modernize their existing facilities drastically or to equip fully new greenfield plants. All facets of poultry processing are covered by our solutions and services in these plants, from live bird handling to final product packs.



# CUSTOMER STORY

## Costco teams up with Marel Poultry

Marel Poultry will supply Costco Wholesale and its newly formed poultry processing company, Lincoln Premium Poultry, with a full poultry processing line for a state-of-the-art greenfield plant in Fremont, Nebraska. This order marks the largest single order for Marel to date and will be delivered by the end of 2018.

## State-of-the-art processing

Marel Poultry will supply Lincoln Premium Poultry with three complete slaughter lines, from live bird reception to chilling. Each line will make use of ATLAS, Marel Poultry's latest live bird reception system, designed to improve animal welfare and sustainability while retaining high levels of transportation efficiency. From there, the plant will run complete CAS stunning, killing and evisceration systems, all incorporating the latest technology, followed by chilling.

Costco's goal is to produce two million chickens a week (25,200 bph). The new Lincoln Premium Poultry facility will process birds of 2.7 kg (6.0 lbs) average live weight and will handle about a third of the raw and rotisserie products for the company. Innova Food Processing Software, fully integrated throughout the plant, will help management achieve full traceability and lift efficiency levels.

## From chilling to automated, smart packing

For chilling, Marel Poultry will install three shock/maturation air chill systems. Two distribution lines complete with SmartWeigher and IRIS vision grading will be installed post-chilling, allowing Costco to make well-founded decisions about downstream product allocation.

After whole bird selection, all remaining products will be cut up on four Marel Poultry cut-up lines. Deboning will be done using five of the newest AMF-i cap deboners and two in-line Thigh Fillet Systems. Deboned parts will pass through one of five Marel SensorX machines for bone detection.

A combination of Marel robots and Multihead Weighers will align cut portions automatically for thermoform packing. Metal detectors and full specification Marel weight-price labeling lines will box each pack in cartons.

## Sustainability

Improved utilization of raw materials has become increasingly important as the world population grows and demand for protein increases. Our answer lies in the adage 'waste not, want not,' as our customers require systems that enable them to use every part of the broiler and obtain a better price for a more valuable product. Maximizing the value of every part of the chicken is therefore high on Marel Poultry's agenda; by so doing we contribute to both internal and external sustainability goals in the industry.

## Growth drivers

Market demand for higher throughput is our division's main growth driver. We will continue to supply technological solutions that increase automation and mechanization to realize these requirements.

Another growth driver is the demand for increased product value using an integrated inline process that can lower cost per product processed. Our approach is to create solutions that automate labor and improve yield, uptime and product quality, while increasing sustainability through lower water and energy consumption.

## Global production and trade trends

In 2018, global production of chicken meat is estimated to rise by 1.2% and reach 91.3 million tons. Global trade in chicken meat is expected to grow by 3.3% and reach 11.4 million tons.

The US is expected to continue to be the leading producer in 2018 with 21% of the total production, followed by Brazil with 15%.

In 2017, the European Union overtook China to become the third-largest producer of chicken meat in the world and is expected to hold that position in 2018.

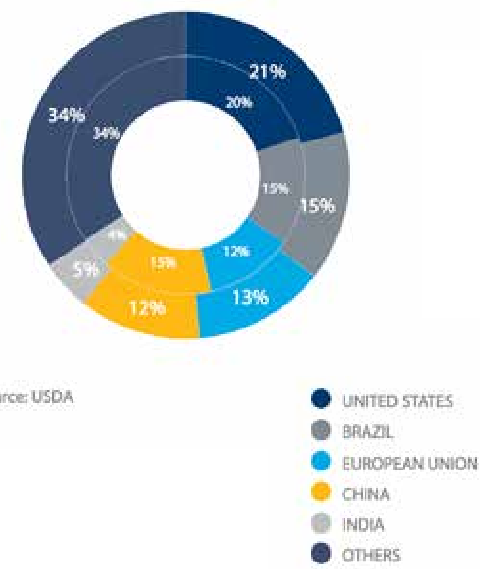
Brazil continues to be the world's leading exporter of chicken meat with 4.0 million tons in 2017, expected to rise to 4.2 million tons in 2018.

GLOBAL CHICKEN PRODUCTION AND TRADE

CAGR OF 2% IN PRODUCTION AND 3% IN TRADE IN THE LAST 5 YEARS


LARGEST CHICKEN PRODUCERS

2018 FORECAST (OUTER) COMPARED TO 5 YEARS AGO (INNER)




Source: USDA

MEAT

32%

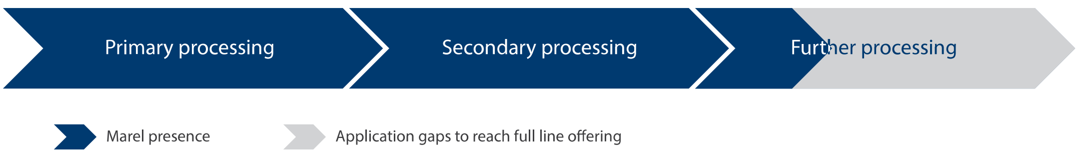
OF REVENUES

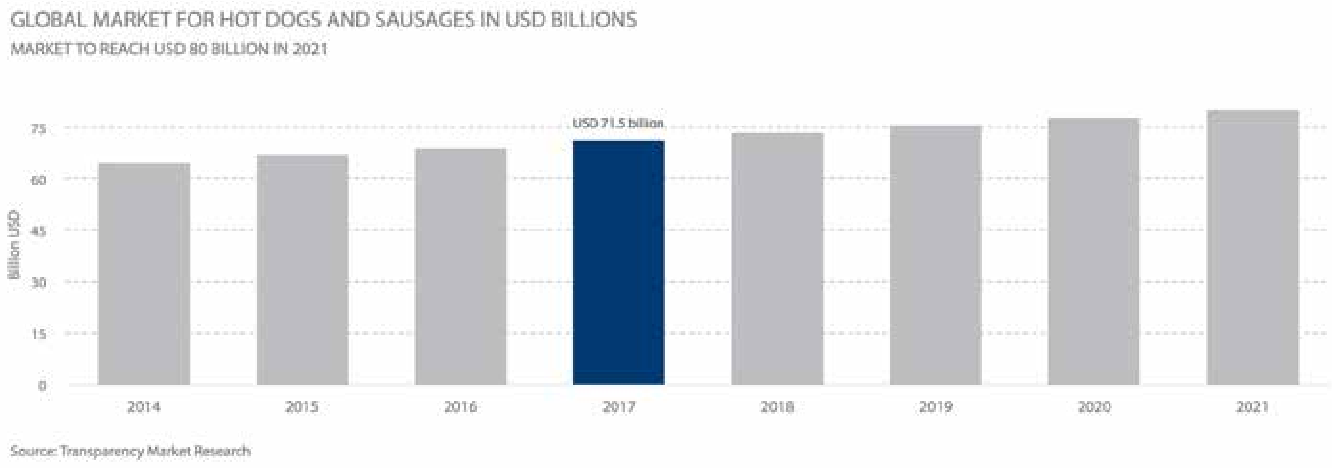
# MEAT

**The meat industry is one of Marel's three key protein industries. Marel Meat is a leading global supplier of integrated systems and advanced stand-alone processing equipment to the red meat industry – from live animal receipt to finished packs. Marel Meat contributed EUR 334 million in revenue in 2017, or 32% of total revenues, translating to an EBIT of 11.5% (operating income adjusted for amortization of acquisition-related intangible assets).**

The consumer value of the global poultry, meat and fish market is estimated to be around EUR 1,200 billion. Meat is the largest market segment, with an estimated value of EUR 600 billion, followed by poultry and fish. More specifically for Marel, the market for food processing equipment and its maintenance for poultry, meat and fish is estimated to be around EUR 10 billion. Of this, meat processing equipment is estimated to be around EUR 5.5 billion and is expected to grow annually by 4-6%.

marel MEAT




## Overview

Integration was the key theme for Marel Meat in 2017. Over the course of the year we worked diligently on the integration of new team members into the front-line sales team as recent acquisitions have made us a full-line supplier to the meat processing industry. We unified our product offering and the team providing it. Our approach was simple yet effective: the whole team was trained to be able to represent the full product line, from farm gate to final pack. Intra-company logistics and wastewater treatment were also areas of focus, with successful projects undertaken in both fields.

**Full-line supplier of primary, secondary and further processing solutions**

The MPS (Meat Processing Systems) acquisition closed in 2016 and key elements in integrating the company were successfully realized in 2017 and will continue in 2018. The expertise and product offering of MPS support Marel's growth strategy in the meat sector. The acquisition has made Marel a full-line supplier to the industry by closing the value chain gaps previously existing in the primary processing segment. Extensive new, full-line projects undertaken in China, South America and the US are clear testimony to the success of the integration.

**Improving geographical reach**

Another major milestone towards closing the remaining gaps in our product offering and geographical reach was the acquisition of Brazilian meat processing equipment manufacturer Sulmaq in Q3. Sulmaq was operated as a stand-alone company in 2017 while Sulmaq and Marel developed strategies to optimize the synergies of the partnership.

**A unified team**

Sales and service have to go hand-in-hand and integration efforts for the Marel Meat service organization were a key focus in 2017. We brought all service activities under one management structure and further strengthened our regional support teams through repositioning and training.

## Products

Our product offerings link up to cover the entire value chain. This was reinforced in 2017 with both the launch of new products and improvements to previous machinery. Marel Meat introduced a new design for the beef deboning StreamLine system that meets the latest hygiene standards and the SpeedBatcher by-product packing solution. We released an optimized Trim Monitor reject-system for meat, created a new paceline infeed and finalized the design of the I-Cut 130 for red meat applications. The I-Saw automatic frozen portioning machine was released in 2017. Our launch of the DeboFlex pork fore-end deboning solution was very well received with new systems delivered to Brazil, North America and Europe.

**Intelligent processing**

Our highly effective Innova software was a key aspect in the promotion of our full-line processing equipment. Our software is at the heart of many of our cutting and deboning solutions where product traceability is essential. It enables our customers to mitigate operational risk, providing full traceability from farm to fork.

**Increased automation**

The efforts of 2017 have placed Marel Meat in a strong position in the market for automated solutions. Automation is employed on many levels of processing and can range from simple machine installations to fully automated robotic lines, controlled by food production software that monitors and manages the production. We saw increased opportunities for automation at every processing step in both the pork and beef sectors in 2017.

**Case-Ready and Food Service**

Marel Meat focused on supplying stand-alone systems and equipment to the case-ready and food service sector. We have a strong foothold in this segment and flexibility and end product differentiation were key issues in 2017. We delivered systems and solutions that help our customers keep pace with the ever-increasing demands of retailers and consumers for case-ready products at competitive prices.

## Innovation

In 2017, Marel Meat continued to work on innovative equipment and software solutions for the industry. As a company thriving on innovation and the development of high-tech applications, Marel sees opportunities where others see challenges. Our teams at Marel Meat are adept at turning ideas into reality; challenges into solutions. Intelligent software applications have become an integral part of the meat production solutions we offer our clients.

**Intelligent robotic slaughter lines**

Increasing automation at some of our more high-tech customers was a key issue in 2017. During the year, Marel Meat developed practical and efficient solutions for every level of automation. Each application was built on in-depth processing know-how, decades of experience and our innovative approach to intelligent automation. Some of our most successful projects in North America, Brazil, Europe, Russia, China and Australia included our intelligent robotic slaughter lines that have set a new standard in slaughter line robotization.

**Meat processing software**

We continued to develop our overarching software solution, Innova. It is designed to control and monitor every aspect of meat processing to increase yield, quality and throughput. We work closely with our customers and other divisions within Marel to create systems and solutions that allow food to be processed in an affordable and sustainable way.

Our motto at Marel Meat is to keep our innovations on the cutting edge of modern technology, while delivering the exact functionality, durability and production stability our customers need to maintain their position in the meat processing industry.

## Projects

Thanks to strategic acquisitions and organic growth, Marel Meat now covers the entire value chain; from live animal intake to finished consumer product. Our projects in 2017 reflect this scope, as larger installations and greenfield projects became more prominent. Some of our largest greenfield projects took us to Spain, France, Mexico and Korea.

We worked with GrupoJorge, one of Spain’s largest meat producers, on extending the capacity of their existing factories, for example. In addition, Marel Meat developed completely new processing facilities for Granjas Carroll de Mexico in Mexico and for PuKyung Pig Farmers Agricultural Cooperative in Korea. Greenfield projects like these are our specialty, as they enable us to utilize our processing and technological expertise to help our customers reach their goals.

# CUSTOMER STORY

## Seeing what the human eye cannot

The Foyle Food Group supplies high quality beef to leading retailers, manufacturers, food service providers and butchers across the world. It has now installed Marel's Trim Management System in three of its five processing plants and reports major advantages gained from the systems.

"Our main reason for installing the Trim Management System was to be able to meet the increasingly varied requests for CL content," says Michael McKay, General Manager at Foyle Food Group. The company can now measure and verify the fat/lean (CL) content in their meat supply and deliver final batches of meat of specified weight with a fixed CL as prescribed by the customer. The system also beats the human eye at detecting bones and other hazardous objects (down to 5 mm), enabling the company to meet increasingly high demands for food safety and hygiene.

"That is a great benefit and makes a huge difference to profit. As a matter of fact, we have gotten new customers onboard because of the system's efficiency," says McKay.

## Sustainability

Animal welfare is and will always be an issue of the utmost importance in the protein sector. Consumers are conscientious and want products that are produced sustainably and ethically. Marel Meat worked closely with customers in 2017 on these issues, delivering systems and equipment that improve production sustainability, both in terms of raw material utilization and energy and water consumption. We emphasize helping processors to be flexible in their product offerings, while simultaneously adhering to animal welfare standards in the primary part of their processing and ensuring sustainability throughout the value chain. This applies to their processing facilities and their equipment set-up.

**Marel Water Treatment**

Wastewater treatment is another area where Marel Meat directly contributes to clients' sustainability efforts. The Marel Water Treatment division is a part of Marel Meat. This long-standing, internationally recognized division was integrated from MPS in 2017 and offers primary, secondary and tertiary treatments for all types of food processing wastewater. Marel water treatment systems are efficient, easy to use and characterized by low maintenance.

## Growth drivers

With different trends governing our sector, Marel Meat sees opportunities for expansion in both traditional growth markets and what some would call saturated markets. As a well-established provider with a full-line offering for primary, secondary and further processing, we see our basic growth being driven by traditional demands, for instance, for improvements in yield, quality and throughput.

In the more advanced sectors of the market, where automation and production optimization have already occurred, we see growth opportunities in the need for a sustained margin. Our approach is to introduce new technologies to increase automation and boost yield.

We have witnessed a clear trend in recent years towards increased requirements for automated systems and processing procedures. As processors face tougher competition with increased automation, they realize that they need to implement new technologies to stay on track and meet fluctuation in consumer demands.

CHINA IS THE WORLD'S LARGEST IMPORTER OF BEEF

OVERTOOK THE US IN 2017

## Global production and trade trends

### Beef and veal

In 2018, global production of beef and veal is estimated to rise by 1.9% to 62.5 million tons. Global trade in beef and veal is expected to grow by 2.7% and reach 10.1 million tons.

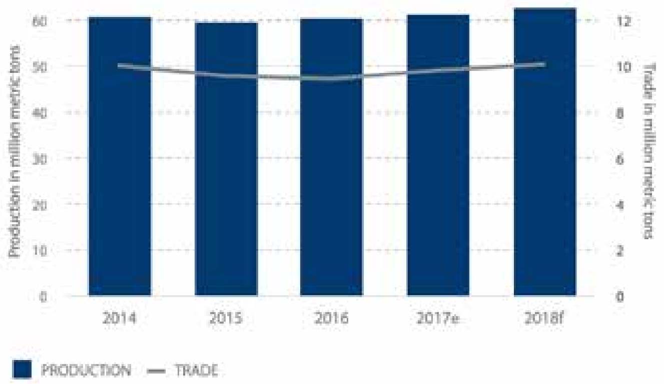
In recent years, India has been the world's largest exporter of beef and veal and is expected to remain in top place in 2018, closely followed by Brazil. However, it should be noted that unlike the other major exporters, India's beef exports are based on water buffalo meat, as export of cow, oxen and calf meat is prohibited by Indian law.

The US is forecast to continue as the leading producer in 2018, accounting for 20% of total production, followed by Brazil with 16%.

On the import side, China (including Hong Kong) overtook the US as the world's largest importer in 2017.

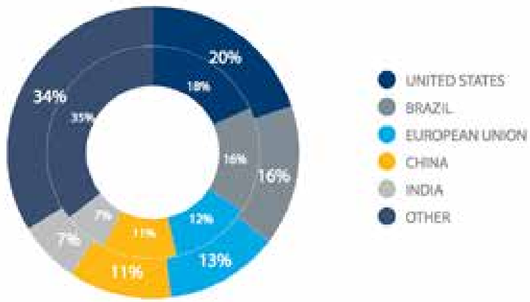
GLOBAL BEEF AND VEAL PRODUCTION AND TRADE

CAGR OF 0.2% IN PRODUCTION AND 2% IN TRADE IN THE LAST 5 YEARS




LARGEST BEEF AND VEAL PRODUCERS

2018 FORECAST (OUTER) COMPARED TO 5 YEARS AGO (INNER)




Source: USDA

## Pork

In 2018, global production of pork is estimated to rise by 1.8% to 113.1 million tons. Global trade in pork is expected to grow by 2.6% and reach 8.5 million tons.

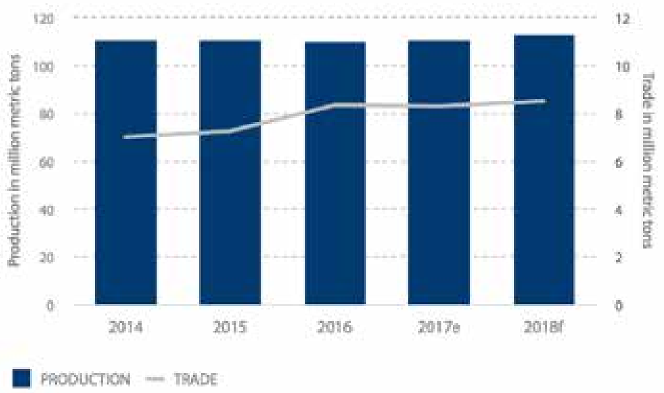
China continues to dominate the pork market, accounting for an estimated 48% of total production in 2018, followed by the EU with 21%.

The EU is the world's largest exporter of pork, closely followed by the US.

China continues to be the largest importer followed by Japan, which it overtook in 2016.

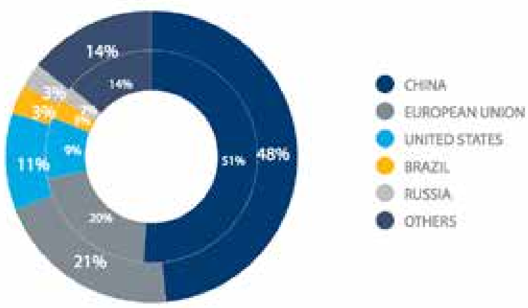
GLOBAL PORK PRODUCTION AND TRADE

CAGR OF 0.5% IN PRODUCTION AND 5% IN TRADE IN THE LAST 5 YEARS




LARGEST PORK PRODUCERS

2018 FORECAST (OUTER) COMPARED TO 5 YEARS AGO (INNER)




Source: USDA

FISH

13%

OF REVENUES

## FISH

**The fish industry is one of Marel's three key protein industries. Marel is a leading global supplier of advanced standalone equipment and integrated systems for all stages of the fish processing value chain. Our systems range from single scales to integrated production lines and turnkey systems, onboard and ashore. Marel Fish contributed EUR 132 million in revenues in 2017, or 13% of total revenues, translating to an EBIT of 4.3% which is below long term targets. Marel Fish has been transformed in recent years and is on the right track as investments in innovation and standardization of the business has delivered good orders received and improved margins.**

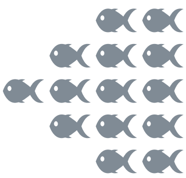
The consumer value of the global poultry, meat and fish market is estimated to be around EUR 1,200 billion, with the fish market accounting for an estimated 200 billion. More specifically for Marel, the market for food processing equipment and its maintenance for poultry, meat and fish is estimated to be around EUR 10 billion. Of this, fish processing equipment is estimated at around EUR 1.5 billion and is expected to grow annually by 4-6%.


## Overview

In 2017, Marel Fish focused on enabling fish processors to generate higher value through better utilization of raw material and maximize throughput, quality and process control. The wild whitefish segment continues to occupy an important place in the Marel Fish portfolio due to its long-term use of technology and modern fishing and processing methods. Marine sourcing of wild fish is a relatively fixed resource with little potential for growth due to the state of fish stocks and quota limitations. Thanks to their investment in high-tech onboard solutions, whitefish processors are now able to meet rising demand for products by improving the utilization and value of their catch.

**Growth opportunities in the farmed fish sector**

Aquaculture has been the fastest growing food production segment in the last decade and Marel Fish has a strong foothold in the sector, especially in the salmon part of the industry. We have also worked for many of the world's largest processors of tilapia, sea bream and sea bass. Our efforts to further our market penetration in this sector in 2017 have given us a strong position to continue this expansion in 2018 and beyond.



NORWAY CONTINUES TO DOMINATE

52% OF THE GLOBAL SALMON PRODUCTION

## Products

Marel Fish revolutionized the cod processing industry yet again with the addition of a new pre-trim line and robot packing solution for FleXicut that offers automatic pinbone detection and removal. FleXicut has been very well received, with sales to both land-based operations and onboard processing throughout Europe and North America in 2017.

In salmon, Marel continued to push the boundaries, developing innovative new primary plants in Norway and Denmark. As the year progressed, unusually high whole-salmon prices returned to a more moderate level, stimulating the trend towards consumption of filleted, portioned and sliced salmon – all added-value products in which Marel has invested heavily to create the leading processing equipment in the industry.

**An almost hands-free process**

Marel Fish demonstrated an almost hands-free process throughout the production chain at our Whitefish Showhow with a new configuration of a FleXicut line.

The concept, with a new pre-trim solution and packing robots further down the line, means that pre-trim is the last place the fish is touched by human hands. The packing robots are yet another cross-industry application that was originally developed for poultry and is now applied to fish.

**Transferring technology between industries**

The FleXicut pinboning and portioning system is a perfect example of how Marel transfers technology between processes and industries. Its technology is the result of innovation and development of x-ray technology that started with the SensorX in 2004 – a machine that is now the quality assurance standard in the poultry industry – and image processing and computer applications that Marel started using in its intelligent slicing machines in the 1990s.

This technological transfer has continued with FleXicut in 2017. Initially developed for whitefish, the equipment underwent extensive testing in 2017 for salmon applications. The successful results were demonstrated at the 2018 Salmon ShowHow in February.

**Smart software – smart factories**

Data is increasingly valuable in today's high-tech processing environment. The ability to track and analyze data is key to competitiveness for fish processors. Innova was featured at ShowHows and other events during the year where customers could see machines generate data in real time and learn how Innova uses the data to provide full production control. A comprehensive Innova conference attracted a large group of fish processors in 2017. The aim was to help them stay on top of production control and realize the full potential of our overarching software solution.

## Innovation

In 2017, visitors to several major exhibitions and Marel's Whitefish ShowHow were given the opportunity to walk through a computer rendered model and a 360° video from inside a high-tech cod processing plant equipped with a FleXicut line. The experience gives unique insights into fish processing advances, without having to transport an entire factory to various locations around the world. We also began using Virtual Reality (VR) in the development phase of products, saving engineering hours and shortening development time. The use of VR shows how we make full use of technology both to develop and to demonstrate our products.

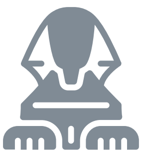
**From one industry to another**

In 2017, we released the results of primary innovative work undertaken to meet current market demands. We are known for taking our technology across industries and this year we transferred results from innovative work in robot technology from the poultry sector into fish processing. The solution is called RoboBatcher Flex. We use this award winning robotic application for batching fixed-weight products and automatically styling them into retail trays. This improves yield and greatly reduces giveaway.

**Innovative applications**

The FleXitrim pre-trim line was another step forward for the whitefish processing industry in 2017. The new features of the FleXitrim, fully integrated with the current FleXicut system, make it the only solution on the market that offers the sophisticated combination of automated quality control and full traceability of individual portions all the way to the final pack. The new M360 wrap-around labeler was well received in the fish industry. It employs the latest technology in flexible, linerless labeling.

The MS 2720 salmon deheading machine, released on January 1, 2018, was pre-released at the Marel Salmon ShowHow in February 2017. This innovative solution offers some of the highest levels of throughput, yield and quality ever achieved for this process.



EGYPT HAS OVERTAKEN INDONESIA

AS THE WORLD'S 2ND LARGEST PRODUCER OF TILAPIA AFTER CHINA

## Projects

For Marel Fish, 2017 was a productive year with an increase in greenfield projects, which average 25% of our overall project load, with standard equipment and system installations accounting for 75%. The whitefish segment had steady sales of standard systems to current and new customers in all our regions and the farmed fish team participated in large greenfield projects in Scandinavia. The following examples illustrate the variety of those projects we undertook in 2017.

**Nordic hi-tech**

In 2017, we undertook our largest ever project in this industry, a greenfield facility for Norwegian fish processing giant Leroy Seafood Group. Another major greenfield project involved a new, ultramodern whitefish plant for Primex, Norway, which will set a new benchmark in the whitefish industry. The project includes completely new robot technology that will improve product distribution and handling.

**Fish in the desert**

The Saudi Arabian processing giant NAQUA continued to work with Marel to improve processing. In 2017, the company decided to double its already impressive throughput and install new packing lines and the Innova Paperless Quality Control (QC) system. This was an extensive project with multiple installation phases, most of which were completed during the year.

**Cooperation across borders**

Marel, Icelandic processor Samherji and Dutch processor Parlevliet & Van der Plas entered into a substantial partnership agreement to modernize the processors' operations onboard and onshore with FleXicut systems. Samherji and Marel have worked closely together for decades on developing advanced fish processing solutions, and this extensive cooperation contract reflects the two companies' shared passion for innovation.

# CUSTOMER STORY

## Largest processing facility in Brazil

In 2017, C.Vale opened the largest and most advanced fish processing facility in Brazil, fitted with processing equipment and systems from Marel. The new modern factory is just over 10,000 m2 and has an initial processing capacity of 75,000 tilapia per day. “Our next goal will be to reach 300,000 per day. We have a consolidated customer base who are waiting for our fish products both in the domestic and foreign market,” says Alfredo Lang, the president of C.Vale.

C.Vale and Marel have a long shared history spanning over two decades, mainly in the area of poultry and further processing. “This new project is not just a watershed in the fish industry in Brazil, it also reiterates and strengthens the partnership between the companies,” says Francisco Leandro, General Manager of Marel in Brazil.

The plant is designed not just to meet current needs but also allows for the future expansion of productive capacity that C.Vale is planning in partnership with Marel in the coming years.

## Sustainability

Marel Fish contributes both directly and indirectly to increased sustainability in the world of food processing. Our focus on improving product utilization and increasing yield serve sustainability in various ways. Improved raw material utilization preserves resources, both natural and economical. Our equipment is designed for optimal energy and water usage and to facilitate cleaning, all geared towards using resources sparingly.

## Growth drivers

For Marel, the key factors for future market growth include the expansion of the farmed whitefish segment and the overall rise in automation in fish processing around the world. Processing volumes in farmed whitefish are expected to rise exponentially in the years to come. Currently automated factories will increase their level of automation, highly automated players will look towards robotics and hands-free processing and an increase in entry level automation is expected. Reduction of manpower is the driver in Europe and North America, where companies are increasingly prepared to invest in technology to compensate for a diminishing supply of labor.

Changing dietary habits and a continuous rise in the demand, not only for seafood in general but also for differentiated and value-added seafood products are major growth drivers in the industry. Innovative solutions in both salmon and whitefish will set a new industry standard in coming years, with major Norwegian and Icelandic processors leading the way. Watershed installations are already underway and will set the tone for others to follow.

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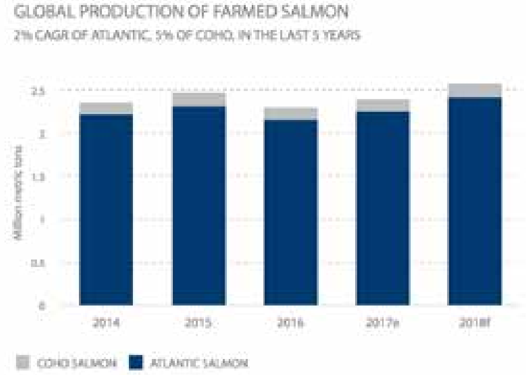
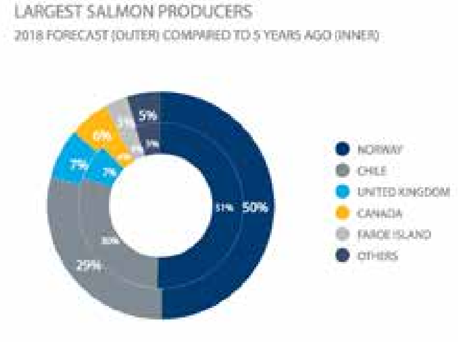
## Global production and trade trends

### Salmon

In 2018, global salmon production is estimated to rise by 7.6% to 2.6 million tons. Atlantic salmon is expected to account for 94% of production. Norway continues to dominate production with an expected 50% of the total production in 2018, followed by Chile with 29%. Salmon production in Chile is forecast to increase by 11% in 2018, compared to an 8% increase in Norway. The market will continue to be dominated by these two countries.

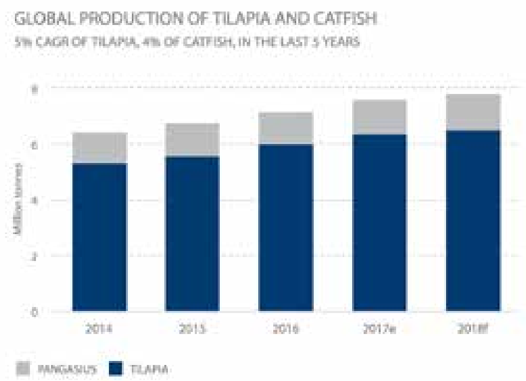


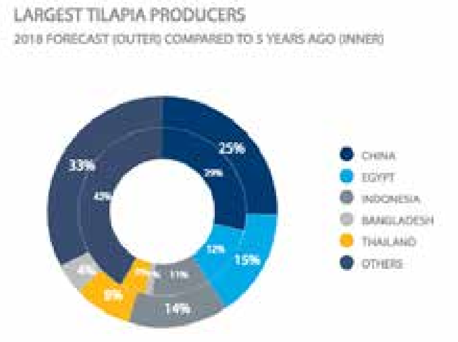




Source: FAO and Groundfish Forum

### Tilapia and catfish

In 2018, global production of tilapia and catfish is expected to rise by 2.6% to 6.5 million tons, of which catfish will comprise 1.3 million tons. China continues to lead the market with a 25% share, followed by Egypt with 15%.

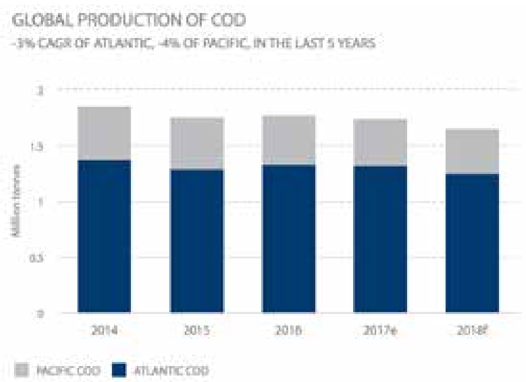


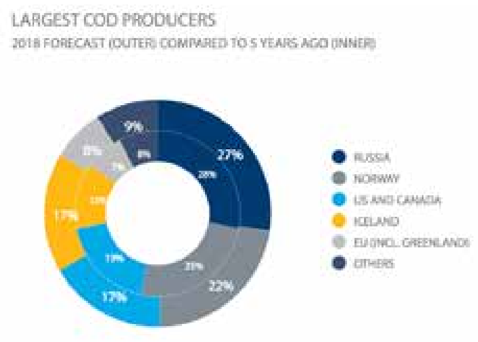




Source: FAO and Ragnar Tveterås

### Cod

According to forecasts, global production of cod will shrink to 1.7 million tons in 2018, a decrease of 5.4%. Atlantic cod is expected to account for 75% of production. Russia continues to lead with a 27% share of the market, followed by Norway with 22%. In 2018, the cod catch is expected to decrease in all leading countries except Iceland. Icelandic production has increased each year from 2014, as stronger cod stocks have enabled higher total allowable catches (TACs).



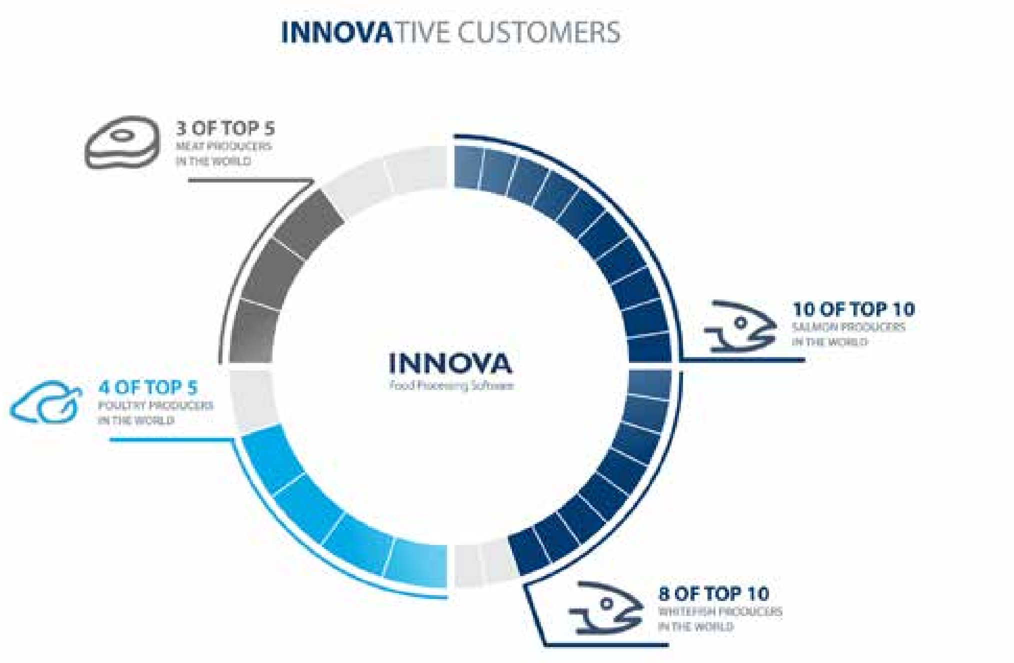




Source: FAO and Groundfish Forum

## INNOVA FOOD PROCESSING SOFTWARE

**Innova is our revolutionary food processing software that provides full production control and traceability, giving a complete overview of the product's journey through processing from reception to dispatch.**

To date, we have around 1,800 Innova installations worldwide, with the result that many of the largest food processing companies in the world already use this leading-edge software. Innova can be implemented as an all-inclusive production system, adapted for specific production units and even connected to third party equipment.




85,000

INNOVA LICENSES

(EQUIPMENT, USERS, PRINTERS, LINES INTERFACES, YIELD POINTS)

1,800

INSTALLATIONS WORLDWIDE

## The future of intelligent production control

Utilizing the latest technology and cloud analytics, Innova is the future of intelligent production control. It enables plants to manage, monitor and improve the entire production process, allowing producers to spot inefficiencies on the factory floor by presenting the information needed to maximize throughput, quality and yield.

Food producers need to be able to keep pace with ever-increasing industry and regulatory demands for animal welfare, traceability and quality control. Innova provides efficient, high-performing software solutions that enable them to do just that.

## Direct traceability

Innova can be applied to every processing step, providing a complete overview of the product's journey through processing from reception to dispatch. It controls and monitors the animal reception and registration, the production flow and the deboning, packing and dispatching processes.

Having Innova manage the entire operation creates a direct line between the slaughtered animal and the customer, giving unique advantages.

## Streamlined order management

Innova not only provides full production control and traceability, it also helps improve the entire order processing, making it more streamlined and easy to manage. Innova can optimize workflows, enable cost effective inventory control and efficient order management. The system includes purchase orders, production orders, inventory orders and sales orders.

## Innova connects to third-party equipment

Innova Food Processing Software is set up to work with the third party equipment, systems and solutions that are independent of Marel equipment. That way, our customers can install a single software system to oversee production and integrate with their existing systems.

## It's all in the label

The label designer in Innova is a very powerful tool. All the traceability information on the product is collected through processing and available on the final product label.The flexible system means you can easily design the labels to fit the information and the final product package.

# CUSTOMER STORY

## High-grade software for high-grade salmon

The Mt Cook Alpine Salmon processing facility at Timaru in New Zealand opened in late 2013 and processes very high-grade salmon. The dynamic company is a fully integrated operation with its own supply chain and exports most of its salmon to discerning markets around the world.

With a strong focus on the high quality of its end products, it is important to Mt Cook Alpine Salmon that they own and control all the steps from farm through to sales. Innova Food Processing Software has supported this from the start, providing traceability from farm to pack and ensuring that critical information is always on hand in real time.

## High-tech for quality products

In modern salmon processing, high-tech equipment and food processing software is an absolute necessity. “We looked at various systems and approaches for managing our production,” says Brent Keelty, plant manager at Mt Cook Alpine Salmon. “We’re glad we decided to go with Innova from Marel; it’s a best-in-class solution for fish processing.”

## Return on investment

Mt. Cook Alpine Salmon use Innova for receiving fish from farms to the factory and into production. They use Innova for order control and different stages of inventory management, as well as for weighing, labeling and packing of finished goods all the way through to the dispatch processes. This translates to order management, yield control and performance analysis across the plant. The overall gains in efficiency are valuable and, in particular, being able to produce to order adds a lot of value:

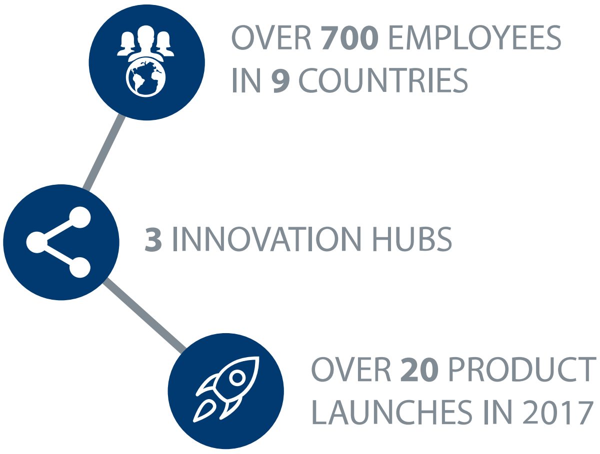
“Innova helps us maintain optimum inventories and produce exactly to the orders,” says Keelty. “As a result, we minimize over- and under-production and our products are always consistent and reliable.”

## The value of automation and traceability

Keelty explains that the value of having the automated production system was quickly apparent. “It’s a robust system and provides us real-time production management and a powerful tool for maintaining traceability from our salmon farms to dispatch orders,” says Keelty. “We can monitor production performance in real time and make any changes on the go. It helps us improve throughput and reduce giveaway, and it gives us live production control.”

## Easy to use

Despite the complexity and scope of some of the challenges it solves, Innova Food Processing Software is designed to be as user-friendly as possible. “Our operators like it because the system is easy to use and it’s consistent,” Keelty agrees. “We also use it for trend analysis in our production through live reports and dashboards, we can easily do aged analysis, reporting on various areas including sales, harvest volumes, production tonnages and fish size.”




## INNOVATION

**Innovation is and has always been at the heart of Marel. We invest around 6% of revenues in research and development annually, which translated into EUR 58 million in 2017. With over 20 solutions introduced to the market in 2017, it is safe to say that innovation is simply in the DNA of our people. Our experts are relentless in their efforts to meet the next challenge in the market with an effective solution.**

We have over 700 dedicated technology professionals in 9 countries, working in partnership with our key customers to change the way food is processed. People are our greatest asset in driving innovation: it is all about their mindset. You have to be creative, passionate and brave.

Data analytics and software control are becoming increasingly important. Our approach to innovation is not limited to mechanical engineering but also encompasses integrated technologies and connectivity. From the start, we have bundled software and equipment together.

Today, Marel is the focal point of information gathering for one of the most important value chains in the world.

## Keeping ahead of trends

At Marel, we analyze current trends and anticipate processing challenges as part of staying informed of the market conditions and changes in the industries we serve. Key trends that will continue to characterize the food processing industry in coming years are the emphases on productivity and process optimization, together with demands for food safety and sustainability. We work on these issues daily by putting our extensive product know-how and processing skills to work to provide the innovative solutions our customers need.

## Strategic focus

Innovation strategically focuses on three key areas: new product development, modernization of existing product lines and creating a common core technical platform for Marel.

Marel's development of new products creates breakthrough innovations to meet the challenges facing customers. In addition to new equipment and solutions, product upgrades and incremental additions to existing machines and systems make sure our equipment stays competitive. We also focus on modularization and standardization as drivers to maximize synergies available across the company. To that end, we are committed to collaborative innovation with our customers and partners to ensure our products add value in a way that suits their specific needs.

## Product launches 2017

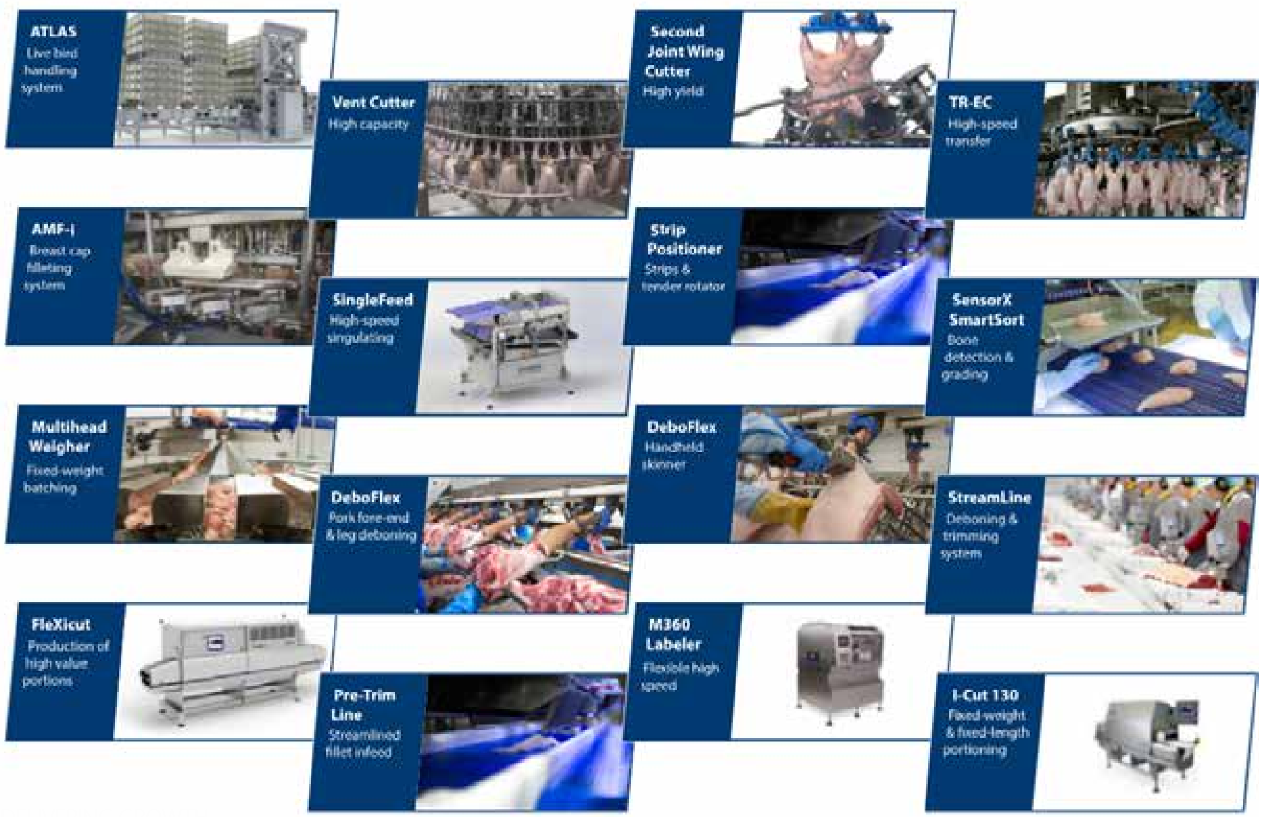
In 2017, we released over 20 products onto the market. Among these successful product launches are the FleXicut for fish, the ATLAS live bird handling system, AMF-I and the Thigh Fillet System for poultry.

In poultry the RoboBatcher is intelligently connected to the I-Cut in the award-winning concept: 'The robot with a knife'. The RoboBatcher Flex is a highly flexible system for automated fixed-weight batching and tray styling of poultry fillets. Designed for high throughput and accuracy, the RoboBatcher Flex can batch and style up to 300 fillets per minute depending on the version and keep giveaway to a minimum.

The Robobatcher Flex has now been made available for fish, while the leading SensorX technology has been reinforced by adding SmartSort to its system for better handling of downstream products.

The newly launched DeboFlex automatic deboning system has set a new standard in the meat industry. A large proportion of the time spent on deboning in a pace line is currently used for turning and moving products around. By reducing this handling time DeboFlex increases the actual cutting time and boosts yield.

Another new release was the I-cut 130 PortionCutter, a next-generation portioning machine. This new system provides superior programming flexibility and a variety of specialized cutting patterns. It guarantees consistently superior accuracy and optimum usage of raw materials, resulting in high-quality products with maximum return on investment.



## Product-focused innovation hubs

R&D is organized around three innovation hubs, each of which has its own specific technology and industry focus while also capitalizing on the synergies between product groups. Our experts draw on their different educational backgrounds and field experience to reach the best results. Marel empowers its employees by fostering teamwork and connections between the different hubs, providing training and good facilities, tools and equipment to work with.

| | NETHERLANDS & US | DENMARK | ICELAND & UK |
|---|---|---|---|
| PRODUCT FOCUS | CROSS INDUSTRY PRODUCTS<br>POULTRY<br>MEAT<br>FURTHER PROCESSING | CROSS INDUSTRY PRODUCTS<br>MEAT<br>FISH | CROSS INDUSTRY PRODUCTS<br>MEAT<br>FISH |

## Creating intelligent equipment for the smart factory

From the early days of the digital revolution to the current opportunities opened up by what has been labeled the fourth industrial revolution, Marel has always linked together software and automation to create innovative solutions to food processing challenges.

Marel's high-tech approach has led the way in using intelligent automation to increase yield, throughput and quality in food processing. In poultry, our recently launched AMF-i is the first intelligent breast filleting system using automatic adaption to breast cap size, resulting in higher yield, capacity and product quality.

Our sophisticated sorting algorithms have been controlling our graders for decades, while the latest 3D laser vision systems work with advanced software to calculate the best cutting patterns for our automatic portioning systems. Technology is, however, advancing at lightning speed with rising computing power a major catalyst. Virtual Reality (VR) and Artificial Intelligence (AI) will further transform our industry in the future. In 2017, Marel started to build up the competencies needed to design and integrate use of these technologies in our products.

## From one industry to another

Marel is known for applying its technology across industries. In 2017, we continued to leverage our strong innovation investments in one field to successfully develop solutions for other protein product groups, across processes and geographies. SensorX and the RoboBatcher are two great examples of products that were developed for one industry but have been successfully adapted for all of Marel's industries.

We will continue to realize the synergies available to a company of our scale and scope, delivering innovative products for our customers and creating further growth opportunities. In particular, major opportunities lie in the secondary and further processing parts of the value chain, e.g. portioning, batching, weighing and marinating, where the processing steps become more homogenous across industries.

### Robobatcher Flex

This year we successfully transferred our award winning robotic technology from the poultry sector to fish processing. The RoboBatcher Flex batches fixed-weight products automatically and styles them into retail trays. This ensures maximum batching flexibility and high product utilization with virtually no give-away.

### SensorX

Originally created to detect pinbones in whitefish, the SensorX bone and contaminant detection system has now become a staple in poultry factories around the world, working in tandem with the next generation of quality assurance systems for ground meat and meat trim. The system uses advanced X-ray technology to scan for bones in fish and poultry or analyze fat/lean content in meat.

**Innovation**

# A TRUE PET PROJECT

A testament to both the creative mindset of our innovation team and the excellent cooperation we enjoy with our strategic partners is the mewing story of FleXicut. Before officially launching FleXicut, a trimming robot for high precision bone detection and removal, we ran a prototype machine in close partnership with one of our key customers, Vísir.

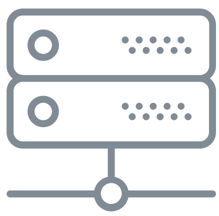
Not lacking in either creativity or imagination, the team members from both Marel and Vísir soon adopted the test machine as their pet project, in various senses of the word. The name FleXicut, aptly reflecting its flexible water approach to more efficient cutting patterns, was soon nicknamed the 'Cut' among the team. As the word 'cut' is pronounced exactly the same way as the Icelandic word for cat – kött – FleXicat quickly became the team's pet project name. During the testing period, sometimes the cat was up and running, other times the kitty needed a bit of petting, cleaning or was hungry for spare parts. When a second FleXicut was rolled out, the team decided it was time to give their pets names. They became Puff and Inky from the classic children's books by Pierre Probst, to better distinguish the two. Today, our innovation team can track all their cats in a real time environment – hopefully purring contentedly in their new homes - and collect data on how to improve efficiency and service support.

We believe that a working environment where creativity flourishes and innovative thinking thrives allows us to create new, smarter solutions for our customers.

## One global new product Development process

New product developments follow a global progression with multi-disciplinary development teams and knowledge-sharing throughout the company. Solid infrastructure ensures standardization and modularization of our equipment, as well as the proper tools to carry out high-quality engineering.

To take full advantage of the scale of our business, we focus especially on leveraging common technologies across our product portfolio. To this end, we are working towards developing one technical platform for all Marel equipment to run on. This will ensure technical integrity in designing our solutions while at the same time making them more accessible for our customers.



ONE TECHNICAL PLATFORM

1,246 FTEs
IN GLOBAL SERVICES

## SALES

**Marel's global network of dedicated sales representatives is one of the company's strongest and most visible assets. Our sales operation consists of local representatives in over 30 countries, 19 regional organizations and a global network of more than 100 agents and distributors.**

With such a large network, Marel can serve large and small food processors and food retail companies on location, wherever they are. Our industry specific segments – fish, meat and poultry – are manned with specialized sales people, working in partnership with customers around the world. We are dedicated to bringing top-of-the-line services, consistency and excellence to each project we undertake.

47% OF ALL SERVICE VISITS
WERE ON SITE

### Demo centers for customer demonstrations, conferences and training

Marel operates four demonstration facilities for customers: one in Copenhagen, Denmark, another in Boxmeer, the Netherlands and two in the USA, in Lenexa, Kansas and Des Moines, Iowa. Three of the centers are built exclusively for the purpose of customer demonstrations, conferences, training and internal meetings, while the innovation center in Des Moines is more focused on new product development. The facilities offer a hands-on environment where customers can see how Marel innovations can improve their food production, employee expertise and operational outcomes.


### Progress Point in Copenhagen

Progress Point in Copenhagen is the flagship of our four demo centers. The 2,700$m^2$ custom designed building, located on a 10,000$m^2$ site, is a unique training and demo facility designed to bring customers and processing experts together to experience the full potential of Marel equipment and integrated systems in a hands-on environment.

At Progress Point, we host four major events every year for the salmon, meat and whitefish industries and a bi-annual event for poultry. These unique events bring together processors from all over the world to explore the latest advances in food processing and hear guest speakers address some of today's key processing challenges. The ShowHows give processors the opportunity to discover how Marel's industry leading products can help them organize their daily production and address the critical factors that affect raw material utilization, processing times, labor costs and food safety. These events also give customers an opportunity to provide valuable input and exchange ideas with Marel employees.

Marel also hosted its first Capital Markets Day at Progress Point on November 2, 2017. Over 100 investors and analysts attended the meeting, which was a great success.

780 ENGINEERS DELIVERED
1 MILLION HOURS
SERVICING OUR CUSTOMERS

## GLOBAL SERVICES

**As a service-oriented operation, we focus on assisting our customers in maintaining optimal production flow, uptime and output. We run a global, well-organized service and maintenance operation that is and will continue to be one of the main sources of our revenue and growth. Delivering around 40% of the company's revenues, the service and spare parts business is a clear growth opportunity, driving value for both customers and shareholders.**

Our focus is on proactive service that includes preventative maintenance, spare parts packages and long-term service contracts. Our experience shows that an increasing number of customers prefer this model. Working proactively with customers prevents downtime in their production facilities and ensures consistent peak productivity at all times.

### Improved efficiency following implementation of ServiceMax

To improve service even further, Marel implemented one global field service management platform, ServiceMax, on a company-wide basis in 2016. This was an important step in advancing our global service strategy. Equipping all our field service engineers with iPads and dedicated software enables them to coordinate schedules and projects and to deliver regular service reports. By standardizing the company's processes and IT platforms, we aim to raise our service network to an even higher level.

The results were already evident in 2017, with ServiceMax providing us with the first consolidated, full range overview of the installed base, customers and workforce. Efficiency has increased, as field data is shared with the office more quickly and the positive effects are evident in improved service delivery and sustainable growth. Response times have shortened, on-time performance has improved and there are consistent productivity improvements in the field.

### A key source of recurring revenues

Service will continue to be a key source of revenue and growth for Marel in the coming years. Major investments have been made in business improvements in the last few years, including IT and employee development. This has created a solid foundation for future growth and profitability from the company's service operations.

## GLOBAL SUPPLY CHAIN

**The global supply chain at Marel is responsible for procurement and manufacturing within the company and operates worldwide, integrating the company's fish, meat, poultry and further processing industry units.**

A team of over 2,000 people supports product development with new equipment and service parts. Our experts make sure that our modernization projects, large greenfields developments and individual machine installations run on schedule and are delivered and serviced in line with agreements. We work closely with logistics services and key material and parts suppliers around the world.

In 2017, we realized the benefits of previous restructurings and consolidation of the supply chain footprint.

We now run 12 manufacturing sites for machines and parts and 4 main distribution centers for service parts. These changes increase the reliability and consistency of productivity and output.

Quality, responsiveness and efficiency are the cornerstones of our operation. Our approach is based on the simple yet effective premise of ensuring that all parts and equipment are delivered to the right place, at the right time and with the right quality and cost. This applies to all phases of manufacturing and distribution as well as to our procurement and supplier's processes.

## AN ENABLER FOR GROWTH

With the benefit of unique scale and skills, Marel's activities have a major competitive advantage. In 2017, we experienced a noticeable strengthening of our operational performance following the co-location of product manufacturing to the best fitting site. This has improved supply chain performance and provides a sustainable base for growth.

The 2017 acquisition of Sulmaq and the previous integration of MPS into our meat unit create even further opportunities for global synergies in Marel's supply base. To take advantage of these opportunities, our leadership organization has been strengthened with new hires. This will further support our growth strategy for the future, allowing us to continue to benefit from and expand our global synergies and focus more intently on our key competencies.

### Developing partnerships with our suppliers

The consolidation steps made in previous years continued to deliver benefits in 2017. We saw further improvement resulting from the reduction of suppliers and product standardization, both of which delivered cost reductions and stronger supplier relations.

Marel's suppliers and their sub-tier suppliers are critical parts of our supply chain. Without them, we would not be able to deliver high quality products reliably to our customers. Just as internal efficiency is essential, so is working effectively with our suppliers.

In order to improve this part of our operation we also implemented a company-wide operating model, making major changes to our KPI reporting. We took steps to reduce the number of suppliers and focus more on partnerships with key suppliers of parts, assemblies and equipment.

This year we also focused on strengthening our internal operations, improving processes and working procedures in general to optimize the way we structure our supply chain. This enables us to meet demands of both market and product development, creating the best possible supply chain for Marel globally.

### Site competences utilized more effectively

Today, there are 12 manufacturing sites strategically positioned around the world. The refocusing program launched in 2014, optimized the manufacturing footprint from 19 sites thereby reducing complexity. This laid a cornerstone for the operational excellence and scalability needed to support future growth. In particular, we have marked Brazil, Slovakia and China as our key growth platforms.

Optimizing manufacturing affected our site in Slovakia considerably. The two locations were consolidated into a single facility, improving the efficiency and efficacy of local processes. Currently, our site in Slovakia accounts for about 10% of total production volume and we are ready to increase this to about 20% of our internal capacity.

We focus on standard and mature products at this site, which is now more streamlined. It also offers opportunities for even better utilization in the future.

## Supporting the launch and development of new products

All products produced at Marel have a designated home, either a mother site or a co-location site. The mother site is responsible for product life cycle management and how the product is manufactured. Co-location sites are focused on scale manufacturing, producing large volumes in a cost effective manner in close proximity to the customer resulting in improved optimal lead-time and cost. As investments in IT systems progress, products will more easily be producible at co-location sites.

A good example of how successful cooperation between multiple disciplines within the company can achieve remarkable end results is the new live-bird handling system for the poultry processing industry launched this year.

With successful co-operation and a flexible production platform, the supply chain was able to contribute significantly to the success of this new product launch. On top of this, improved automation drove the supply chain performance to a high and sustainable level on this project. We view this achievement as a benchmark for future performance.

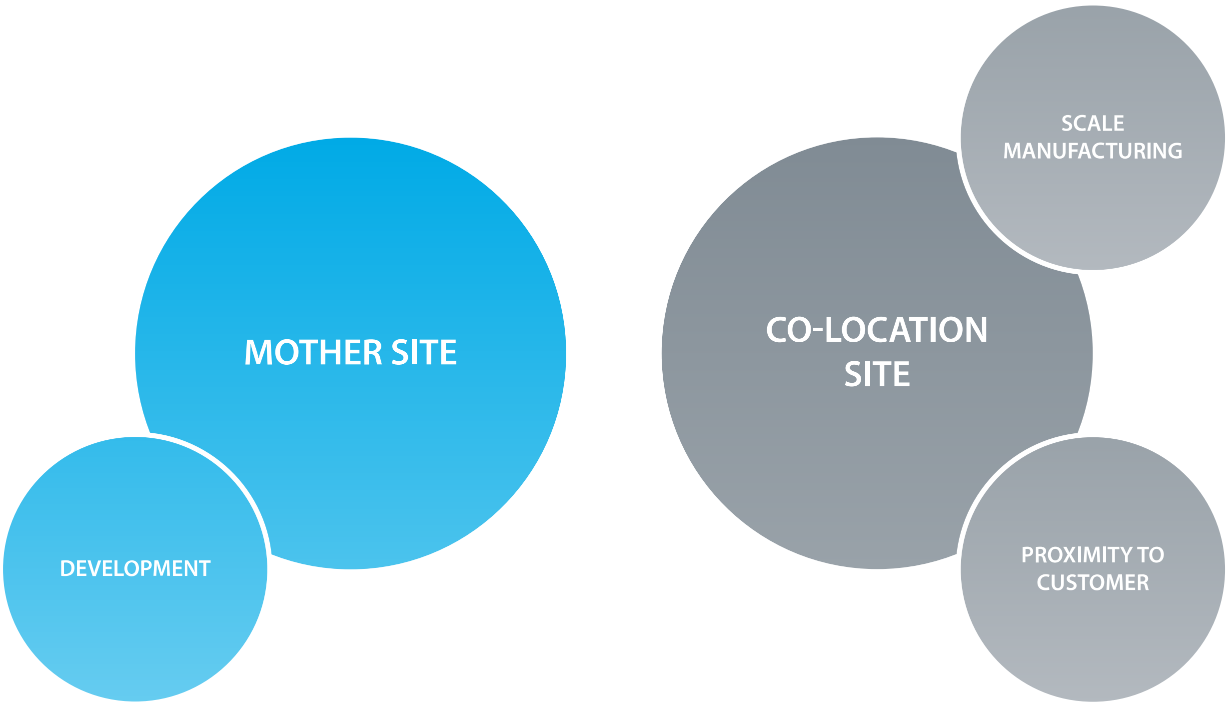
## The smart factory - automation and industry 4.0

Our factories are getting smarter as we contribute to the development and implementation of automation in the food processing industry. We now have a global industrial engineering approach leading to standardization in processes and investments at all sites.

We have always been a high-tech company, leading the automation of our industry and we are now exploring the potential of Industry 4.0.

We see an abundance of opportunities that will enable us to improve supply chain expediency even further by utilizing this new reality. It will enable us to deliver more rapidly and flexibly under any conditions.

We continue our own automation efforts: this year, Marel's seventh manufacturing site purchased a robot welder. This is part of our ongoing strategy to expand robot welding and standardization in robot welding techniques, enhancing quality and making reproduction easier over all sites while minimizing costs.



# INVESTORS

APPROXIMATELY
2,200
SHAREHOLDERS

## SHAREHOLDER INFORMATION

**The largest company on NASDAQ Iceland, Marel had a market capitalization of ISK 237.6 billion at year-end 2017, or EUR 1.9 billion.**

Since its original listing in 1992, Marel has created excellent value for its close to 2,200 shareholders. As the only large cap listed in Iceland, the company's investor base is dominated by Icelandic investors. Although capital restrictions were fully lifted in Iceland in 2017, the NASDAQ Iceland exchange maintains some specific market limitations. In particular, the denomination of shares in Icelandic krónur (ISK) and the limited overall size of the domestic securities market.

### Market capitalization

Marel is the largest company listed on NASDAQ Iceland by market capitalization. The market value of the company at year-end 2017 was ISK 237.6 billion (EUR 1.9 billion) compared to ISK 178.7 billion (EUR 1.5 billion) at year-end 2016, an increase of ISK 58.9 billion (EUR 0.4 billion).

LARGEST COMPANY ON NASDAQ ICELAND
WITH MARKET CAPITALIZATION OF EUR 1,9BN

**TRADING DATA FOR 2017**

| | 2017 | Unit |
|---|---|---|
| Market capitalization | 237,588 | ISKm |
| Share price at year-end | 323.00 | ISK |
| High / Low price per share | 374.50 / 250.50 | ISK |
| Dividend per share | 2.14 | EUR cents |
| Earnings per share | 13.70 | EUR cents |
| P/E ratio | 18.85 | - |
| P/B ratio | 3.31 | - |
| Issued shares | 735.57 | Million |

## Share performance and liquidity

The share price rose 33% over the year, in striking comparison to the modest 4.4% drop in the OMXI8 index for the top listed companies in Iceland. At year-end 2017 Marel's share price stood at ISK 323.00, compared to ISK 243.00 at the end of 2016 (equivalent to EUR 2.58 per share at year-end 2017, compared to EUR 2.04 at the end of 2016). Marel's average end-of-day spread was 0.97%. Since the company's shares are traded in ISK, fluctuations of the Icelandic krona during 2017 affected the market value when converted into euros.

MAREL'S SHARE PRICE
ROSE 33% IN 2017

**Most actively traded**

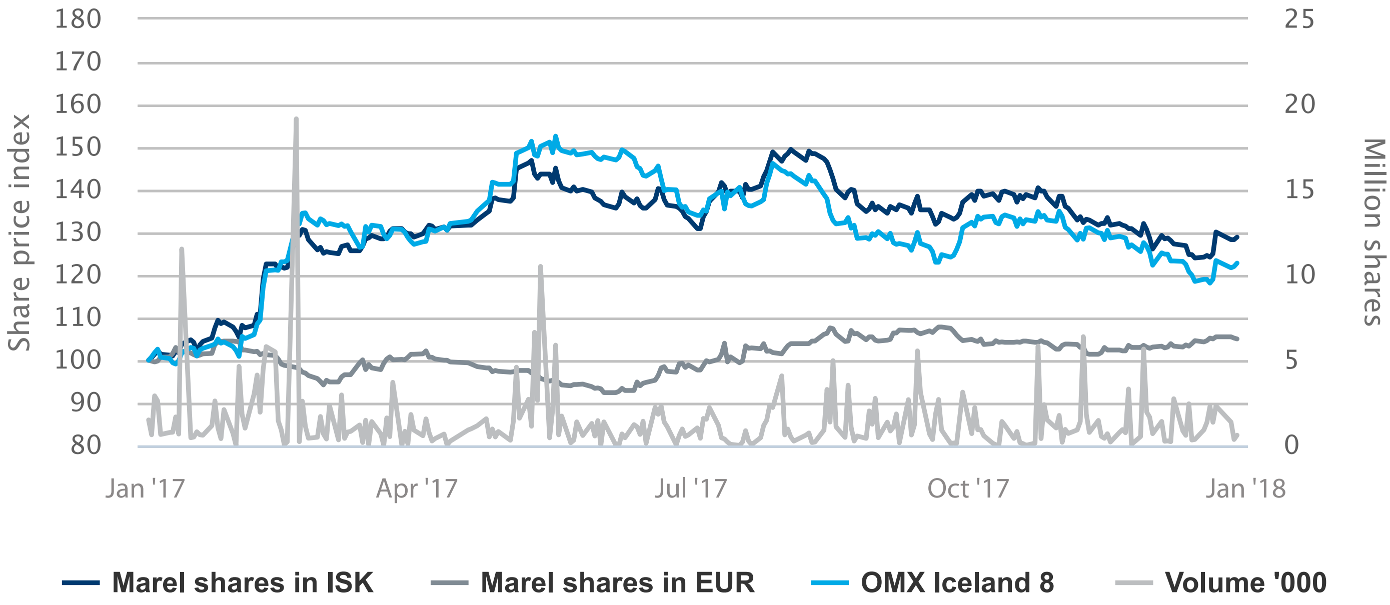
Indeed, Marel shares were the most actively traded on NASDAQ Iceland in 2017, 18.2% of all trading in listed equities. Shares in Marel were traded 3,197 times in 2017 (2016: 2,654 times) for a total market value of ISK 114.5 billion (2016: ISK 70.3 billion), which corresponds to a turnover rate of 47%. However, the daily turnover of the Icelandic exchange (all-share index) is limited compared to the turnover on leading European indices.

**Market making**

Marel has agreements with Landsbankinn hf. and Kvika banki hf. for market making in its shares. The purpose of these agreements is to improve liquidity and to enhance transparent price formation of the company's shares on NASDAQ Iceland. The agreements have an unspecified duration but can be terminated with one month's notice.

MAREL SHARES WERE THE MOST ACTIVELY TRADED SHARES
ON NASDAQ ICELAND IN 2017

SHARE PRICE IN 2017 COMPARED TO OMX ICELAND 8
NOTE: INDEXED NUMBERS, SET AT 100 AT BEGINNING OF YEAR 2017



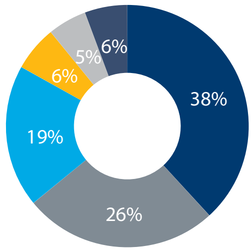
## Shareholder structure

According to its shareholders' register, Marel had 2,206 shareholders at year-end 2017, compared to 1,907 at year-end 2016. As of December 31, 2017, Marel held 41,747,226 treasury shares.

Eyrir Invest hf. is Marel's largest shareholder, with 25.88% of issued shares, followed by the Pension Fund of Commerce (LIVE) (9.4%), and the Pension Fund for State Employees (LSR) and Pension Fund for Nurses (LH) (6.4%).

The ten largest shareholders held 64.6% of the total issued shares. In total, Icelandic pension funds held 38.2% of Marel's issued share capital. International shareholders owned 5.2% at year-end 2017. The free float of Marel shares was 74% and free float adjusted market value of the company was EUR 1.4 billion.

HOLDINGS BY TYPE OF INVESTOR
AS OF 31 DECEMBER 2017




## TOP 10 SHAREHOLDERS AS OF 31 DECEMBER 2017

| | | | Year-end 2017 | | Year-end 2016 | |
|---|---|---|---|---|---|---|
| | Shareholder | Type | Million of shares | % | Million of shares | % |
| 1 | Eyrir Invest hf. | Investment company | 190.4 | 25.9 | 215.4 | 29.3 |
| 2 | The Pension Fund of Commerce | Pension fund | 69.4 | 9.4 | 67.0 | 9.1 |
| 3 | LSR A, B & S divisions and Nurses | Pension fund | 47.4 | 6.4 | 48.0 | 6.5 |
| 4 | Gildi | Pension fund | 47.0 | 6.4 | 51.3 | 7.0 |
| 5 | Birta | Pension fund | 30.3 | 4.1 | 31.9 | 4.3 |
| 6 | MSD Partners Luxembourg S.á.r. | Investment company | 24.6 | 3.3 | 0.0 | 0.0 |
| 7 | Stefnir - IS 15 | Asset management | 23.4 | 3.2 | 32.1 | 4.4 |
| 8 | Stefnir - IS 5 | Asset management | 15.2 | 2.1 | 20.1 | 2.7 |
| 9 | Stapi | Pension fund | 14.5 | 2.0 | 17.3 | 2.4 |
| 10 | Landsbankinn hf. | Bank | 13.2 | 1.8 | 13.7 | 1.9 |
| | | **Top 10 total** | **475.4** | **64.6** | **496.7** | **67.5** |
| | | Others | 218.4 | 29.7 | 217.3 | 29.5 |
| | Marel hf. | Treasury shares | 41.7 | 5.7 | 21.5 | 2.9 |
| | | **Total issued shares** | **735.6** | **100.0** | **735.6** | **100.0** |

## Share capital

At year-end 2017, there were 735.6 million Marel shares issued, all in one class. Of the total share capital base, Marel holds 5.68% or 41.7 million treasury shares.

During the year, Marel purchased 22.2 million treasury shares for a total amount of EUR 63.5 million to be used as a payment for potential future acquisitions. Marel sold 0.9 million treasury shares for EUR 2.5 million to the management of Sulmaq as part of Marel's acquisition of Sulmaq. The sold shares are subject to a lock-in period of 18 months from the date of closing which was August 31, 2017. Marel also sold 1.1 million treasury shares for a total amount of EUR 1.2 million to fulfill employees' stock option schedules.

Stock options are granted to management and selected key employees. At the end of 2017 granted and unexercised stock options totaled 9.9 million shares, of which 1.7 million were exercisable at the end of 2017. The remainder will become vested in the years 2018 to 2021.

At the company's 2014 Annual General Meeting, shareholders authorized the Board of Directors to increase the company's share capital by 35 million shares to fulfill stock option agreements. This authorization is valid for five years following its adoption. No new shares were issued in 2017 under this resolution.

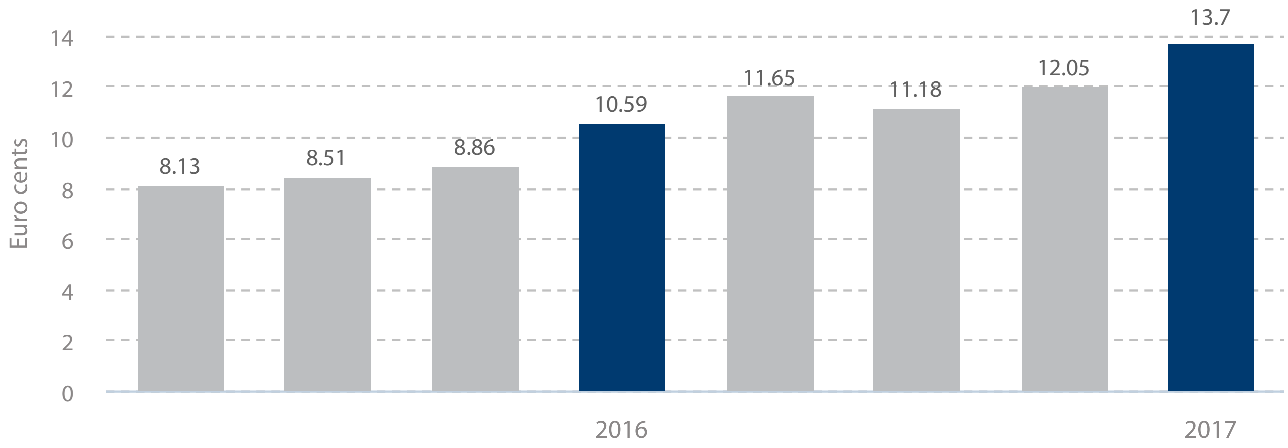
### DISTRIBUTION OF SHARES EXCLUDING TREASURY SHARES, AS OF DECEMBER 31, 2017

| Number of shares | Shareholders | % | Shares | % |
|---|---|---|---|---|
| 1 - 9,999 | 1,432 | 64.91 | 4,789,114 | 0.69 |
| 10,000 - 99,999 | 586 | 26.56 | 17,080,691 | 2.46 |
| 100,000 - 9,999,999 | 174 | 7.89 | 164,737,564 | 23.74 |
| 10,000,000 - 99,999,999 | 13 | 0.59 | 316,847,564 | 45.67 |
| 100,000,000 and more | 1 | 0.05 | 190,366,838 | 27.44 |
| **Total without treasury shares** | **2,206** | **100.00** | **693,821,771** | **100.00** |

## Earnings per share

Earnings per share (EPS), measuring the amount of net income earned per share of stock outstanding, was 13.7 euro cents in 2017, increasing by 29% over the previous year. Earnings per share are expected to grow faster than revenues.

EARNINGS PER SHARE
TRAILING TWELVE MONTHS, BY QUARTER




## Dividends

The Board of Directors has proposed that a dividend of 4.19 euro cents per share be paid for the operational year 2017, corresponding to approximately 30% of profits for the year.

The proposed dividend is in line with Marel's targeted capital allocation and dividend policy, i.e. a dividend policy of 20-40% of net results and a targeted capital structure of x2-3 net debt/EBITDA.

DIVIDENDS FOR 2017
30%
OF NET PROFIT

## **DIVIDEND** HISTORY

| Year of payment (for previous year of operations) | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Dividend per share EUR cents | 2.14 | 1.58 | 0.48 | 0.00 | 0.97 |
| Dividend yield, %* | 1.0% | 0.9% | 0.5% | - | 1.2% |
| Payout ratio, %** | 20.2% | 19.9% | 29.7% | - | 20.0% |
| Ex. Dividend date | Mar 3 | Mar 3 | Mar 5 | - | Mar 7 |
| Record date | Mar 6 | Mar 4 | Mar 6 | - | Mar 11 |
| Payment date | Mar 23 | Mar 23 | Mar 27 | - | Apr 5 |

***Dividend yield, %:** Dividend per share / Price per share at previous year-end

****Payout Ratio:** Total dividend paid / Net income of previous year

## FINANCIAL RESULTS

**For the full year, revenues were over EUR 1 billion with 15% adjusted EBIT.**

- Orders received reached an all-time high
- Production load was effectively managed
- Strong earnings growth and healthy profit margin
- Solid cash flow enables substantial investments in innovation and future platform

| REVENUES | ADJUSTED EBIT | ORDERS RECEIVED | ORDER BOOK |
|---|---|---|---|
| €1,038 | €157 | €1,144 | €472 |
| MILLION | MILLION | MILLION | MILLION |

### Arni Oddur Thordarson, CEO:

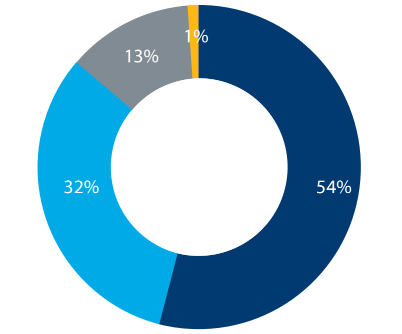
"We had a strong close to a great year. In 2017, we had record orders received of EUR 1,144 million, up 13% year-on-year. Our business is about advancing food processing, and in recent years we have also been moving Marel forward. We have prioritized investments and strengthened processes, enabling us to deliver complex solutions to customers at the right time and of the right quality. To cope with the increased load we have added resources: Today, we are team of 5,400 dedicated members in over 30 countries.

Our committed team delivered record revenues of EUR 1,038 million in 2017, a 6% increase in revenues compared to the previous year. We continue to deliver strong earnings growth with a healthy profit margin of around 15% EBIT in the past two years.

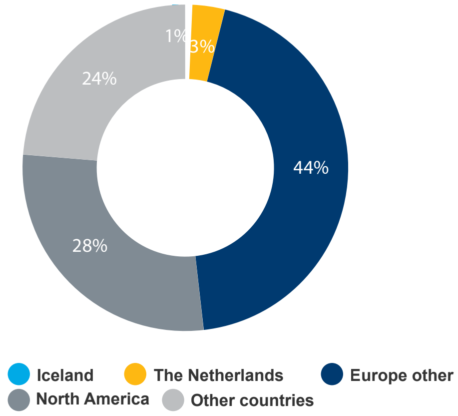
Marel's target is 12% average annual revenue growth in the period 2017-2026. We drive organic growth and value creation with innovation and market penetration, supported by strategic partnerships and acquisitions. In partnership with our customers, we are transforming the way food is processed."

## Good quality of earnings

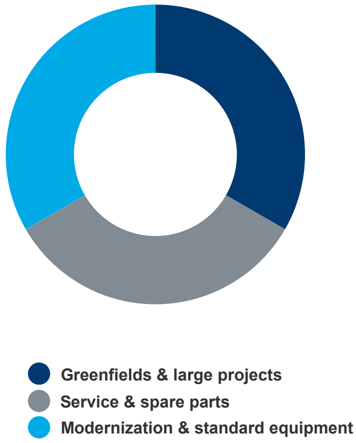
REVENUES BY BUSINESS SEGMENT




REVENUES BY REGION AND COUNTRY

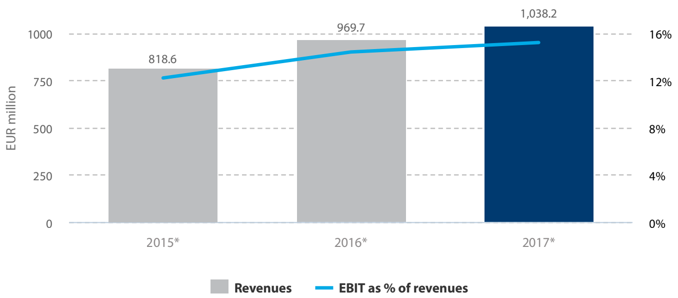



REVENUES BY BUSINESS MIX



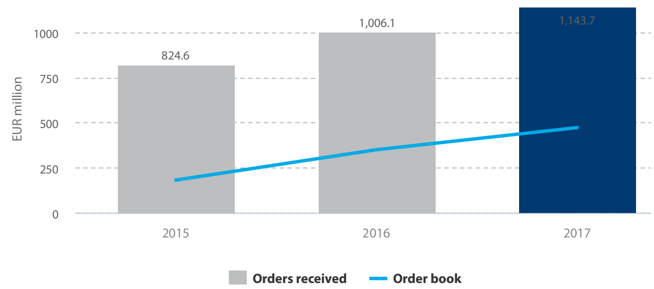

# Robust earnings and profitability

REVENUES AND EBIT
AS PERCENTAGE OF REVENUE

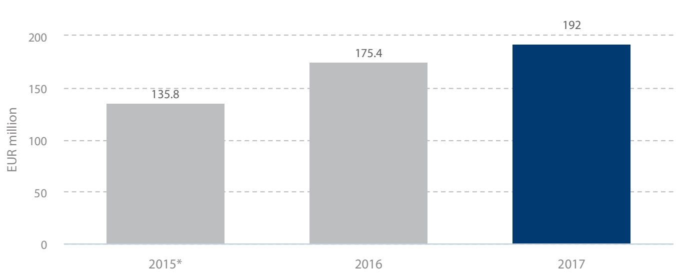



* Operating income adjusted for amortization of acquisition-related intangible assets (PPA) in 2016.
2015 EBIT adjusted for refocusing cost and acquisition costs.

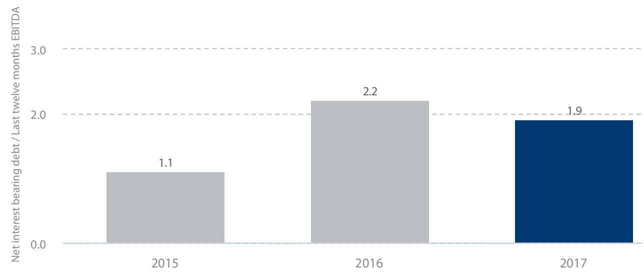
ORDER BOOK



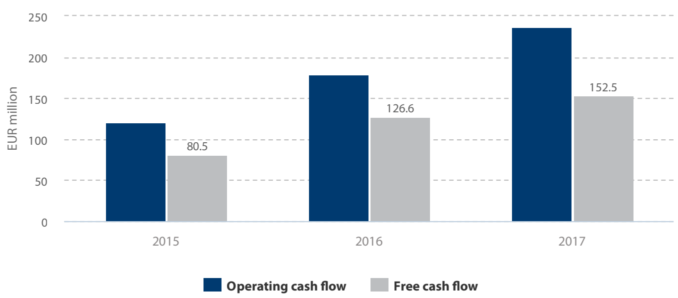

REVENUES AND EBIT
AS PERCENTAGE OF REVENUE




LEVERAGE
NET INTEREST BEARING DEBT / PRO FORMA LTM EBITDA




CASH FLOW




EARNINGS PER SHARE


MILESTONE

## A listed company for 25 years

Listed on NASDAQ Iceland for over 25 years, Marel has created excellent value for its shareholders since the company went public in 1992. To mark its quarter century on the market, a Marel employee of 25 years, together with a 25-year-old Marel employee, symbolically rang the exchange bell.

The listing in 1992 marked a significant milestone in Marel's progress from a startup to its situation today as a leading global provider of advanced processing systems and services to the poultry, meat and fish industries. At year-end 2017, Marel had 5,400 employees working in over 30 countries and EUR 1 billion in revenues, a stark contrast to its 45 employees and revenues of EUR 6 million in 1992.

With the continued support of our shareholders, Marel is well positioned to continue that exemplary progress in the years to come.

# STRONG CLOSE TO A GREAT YEAR

## Orders received were at an all-time high

Marel is reaping the benefits of a steady flow of innovative products with standard building blocks and a full-line offering. Orders received in 2017 were EUR 1,144 million this past year, up 13% compared to EUR 1,013 million in 2016. Projects were well distributed geographically and between different divisions.

The order book stood at EUR 472 million at year-end, or close to 45% of trailing twelve month revenues. This figure includes EUR 17 million from the acquired order book of Sulmaq. Greenfields and projects with long lead times constitute the vast majority of these orders.

## Production load was effectively managed

The recently implemented co-location product strategy has enabled better production management of equipment load fluctuations. In order to deliver the right quality at the right time, production was ramped up and more focus placed on Sales and Operational Planning (S&OP) internally. Outsourcing was a key success factor in improved management of the production load. Our recently extended Nitra facility (Slovakia) will also contribute to further improvements in production load management going forward.

## Solid earnings growth and healthy profit margin

We continue to deliver strong earnings growth with a healthy profit margin of approximately 15% adjusted EBIT for eight quarters in a row. The fourth quarter of 2017 was one of the best ever for Marel, mainly due to the ramp up of production capacity in poultry. Revenues in 2017 were EUR 1,038 million with an adjusted EBIT of EUR 157 million or 15.2% adjusted EBIT margin. By comparison, pro forma revenues in 2016 were EUR 983 million with an adjusted EBIT of EUR 143 million or 14.6% adjusted EBIT margin. All industry segments delivered higher revenues in 2017 compared to the previous year.

### Marel Poultry

Marel Poultry accounted for 54% of Marel's total revenues in 2017. Marel Poultry generated EUR 560 million in revenues and EUR 110 million in EBIT (19.5% EBIT margin) for the full year 2017. This is a 9% increase in revenues and 28% increase from the EBIT of EUR 85 million in 2016 (16.6% EBIT margin). Facilitated by good flexibility in the supply chain organization, orders recognized as revenues were at the highest level ever in Poultry.

Marel is reaping the benefits of a steady flow of innovative products with standard blocks and full line offering.

### Marel Meat

Marel Meat accounted for 32% of Marel's total revenues in 2017. Marel Meat generated EUR 334 million in revenues and EUR 39 million in EBIT (11.5% EBIT margin) for the full year 2017. Revenues were on par with pro forma 2016, with EBIT of EUR 52 million (15.6% EBIT margin). Marel strengthened its position in South America with the acquisition of Brazilian primary meat processor Sulmaq in 2017.

The focus going forward for Marel Meat will be on increased standardization and modularization.

### Marel Fish

Marel Fish accounted for 13% of Marel's total revenues in 2017. Marel Fish generated EUR 132 million in revenues and EUR 6 million in EBIT (4.2% EBIT margin) for the full year 2017. This is a 4.1% increase in revenues and a 43.6% increase from the EBIT of EUR 4 million in 2016 (3.1% EBIT margin). Marel Fish has almost reached the same level of revenues it had before discontinuing its onboard customized solutions in Seattle that contributed approximately a third of total fish revenues in 2015.

The focus going forward for Marel Fish is on full line offering for wild whitefish, farmed salmon and farmed whitefish.

### Strong cash flow enables substantial investments in innovation and future platform

Cash flow was exceptionally good in 2017, where free cash flow amounted to EUR 153 million in 2017. Marel continues to invest in the business to prepare for future growth and reach its full potential. Investment activities are expected to be, on average, above normalized levels for the coming period.

Net interest-bearing debt decreased by EUR 39 million in 2017, despite the fact that Marel acquired Sulmaq for an amount equal to the enterprise value of EUR 26 million and purchased EUR 63.4 million worth of treasury shares. Of the treasury shares bought, EUR 6.8 million were intended to fulfill obligations of stock option agreements and the remainder to facilitate future acquisitions. Net debt/EBITDA was x1.9 at year-end 2017, compared to x2.2 at year-end 2016, fully in line with the targeted capital structure of x2-3 net debt/EBITDA.

The net result in 2017 was EUR 97 million, up 28% compared to EUR 76 million in 2016, rendering EPS of EUR 13.70 cents (2016: EUR 10.59 cents). The Board of Directors has proposed a dividend of EUR 4.19 cents per share for the operating year 2017, the equivalent of approximately 30% of 2017 net results.

In Q2 2017, Marel secured an extension of and amendments to its long-term financing on favorable terms and conditions, reflecting its financial strength and the current market conditions. The all-senior loan facilities total approximately EUR 640 million with initial interest terms EURIBOR/LIBOR +185 bps that will vary in line with Marel's leverage ratio (Net debt/EBITDA) at the end of each quarter. The final maturity is in May 2022. This provides Marel with increased strategic and operational flexibility to support the ambitious growth plan introduced at Marel's Annual General Meeting in March 2017.

## KEY FIGURES

**PRO FORMA FIGURES**[1] IN MILLIONS OF EUR UNLESS OTHERWISE STATED

| | 2017 | 2016 | Change |
|---|---|---|---|
| Revenues | 1,038.2 | 983.0 | 5.6% |
| Gross profit | 406.7 | 404.6 | 0.5% |
| Gross profit as a % of revenues | 39.2% | 41.2% | |
| Adjusted result from operations (EBIT)[2] | 157.4 | 143.5 | 9.7% |
| Adjusted EBIT as a % of revenues[2] | 15.2% | 14.6% | |
| EBITDA | 192.0 | 179.7 | 6.8% |
| EBITDA as a % of revenues | 18.5% | 18.3% | |
| Adjustment for amortization of acquisition-related (in)tangible assets | (17.1) | (24.6) | |
| Result from operations (EBIT) | 140.3 | 118.9 | 18.0% |
| EBIT as a % of revenues | 13.5% | 12.1% | |
| Orders received (includes service revenues) | 1,143.7 | 1,012.8 | 12.9% |
| Order book | 472.1 | 349.5 | 35.1% |

[1] Pro forma results include MPS numbers. Pro forma numbers are presented to provide better comparison.

[2] Operating income adjusted for amortization of acquisition-related (in)tangible assets (PPA).

## 2017 CONSOLIDATED FINANCIAL ACCOUNTS

## RESULTS

| | 2017 | 2016 | 2015[3] |
|---|---|---|---|
| Revenues | 1,038.2 | 969.7 | 818.6 |
| Gross profit | 406.7 | 397.0 | 312.2 |
| Result before depreciation and amortization (EBITDA) | 192.0 | 175.4 | 120.8 |
| Result from operations (EBIT) | 140.3 | 114.8 | 81.6 |
| Net result for the period | 96.9 | 75.8 | 56.7 |

## ORDER BOOK

| | 2017 | 2016 | 2015[3] |
|---|---|---|---|
| Orders received (includes service revenues) | 1,143.7 | 1,006.1 | 824.6 |
| Order book | 472.1 | 349.5 | 180.9 |

## CASH FLOW STATEMENT

| | 2017 | 2016 | 2015[3] |
|---|---|---|---|
| Cash generated from operating activities, before interest & tax | 236.2 | 179.0 | 119.7 |
| Net cash from (to) operating activities | 195.6 | 137.1 | 93.7 |
| Investing activities | (77.7) | (408.1) | (17.9) |
| Net cash from (used in) financing activities | (122.2) | 220.4 | (10.7) |

## FINANCIAL POSITION

| | 2017 | 2016 | 2015[3] |
|---|---|---|---|
| Total assets | 1,440.6 | 1,392.4 | 938.2 |
| Working capital | (71.9) | (13.3) | 94.1 |
| Group equity | 541.9 | 525.6 | 446.7 |
| Net debt | 365.1 | 403.6 | 142.8 |

## VARIOUS FIGURES IN PROPORTION TO SALES

| | 2017 | 2016 | 2015[3] |
|---|---|---|---|
| Gross profit | 39.2% | 40.9% | 38.1% |
| Selling and marketing expenses | 11.6% | 13.3% | 13.6% |
| Research and development expenses | 5.6% | 6.5% | 7.0% |
| Administrative expenses | 6.8% | 6.8% | 7.3% |
| Wages and benefits | 35.0% | 35.0% | 33.6% |
| Result before depreciation (EBITDA) | 18.5% | 18.1% | 14.8% |
| Depreciation/amortisation | 5.0% | 5.7% | 4.8% |
| Result from operations (EBIT) | 13.5% | 11.8% | 10.0% |
| Net result for the period | 9.3% | 7.8% | 6.9% |

## OTHER KEY RATIOS

| | 2017 | 2016 | 2015[3] |
|---|---|---|---|
| Current ratio | 0.8 | 1.0 | 1.4 |
| Quick ratio | 0.6 | 0.6 | 1.0 |
| Equity ratio | 37.6% | 37.7% | 47.6% |
| Return on total equity | 18.2% | 15.6% | 13.0% |
| Return on total assets | 6.8% | 5.4% | 6.0% |

[3] Adjusted for refocusing costs and acquisition related costs

# INVESTOR RELATIONS

**Marel is committed to providing stakeholders with comprehensive information on the company and its operations. Equal access to timely and accurate information disclosure, within the bounds of commercial sensitivity, is key to building a relationship of mutual trust with current shareholders and potential investors.**

## Sources of investor information

Marel aims to meet the highest standards in its investor relations by continuously improving the quality, transparency and consistency of its information disclosure. Investors can follow annual and quarterly results presentations broadcast live over the Internet, in addition to having access to archived financial reporting, webcasts and other relevant investor material at marel.com/ir.

**Financial reports**

Detailed quarterly and annual financial reporting and analysis, including comments on the progress of Marel's operations, are available on the IR website. Upon the close of each financial quarter, senior management presents Marel's results in English for analysts and investors. Following the live Internet webcast a recording is archived and available online in accordance with the requirements of NASDAQ Iceland.

**Annual report**

The annual report gives a comprehensive overview of Marel's operations, plus a detailed description of the company's performance each year. The report is available in English and easily accessible online on a computer, tablet or mobile phone at marel.com/annualreport.

**FINANCIAL CALENDAR FOR 2018**

| Event | Date |
|---|---|
| Annual General Meeting | March 6, 2018 |
| 1st quarter 2018 | April 23, 2018 |
| 2nd quarter 2018 | July 25, 2018 |
| 3rd quarter 2018 | October 31, 2018 |
| 4th quarter 2018 | February 6, 2019 |


INVESTOR RELATIONS

## Capital Markets Day

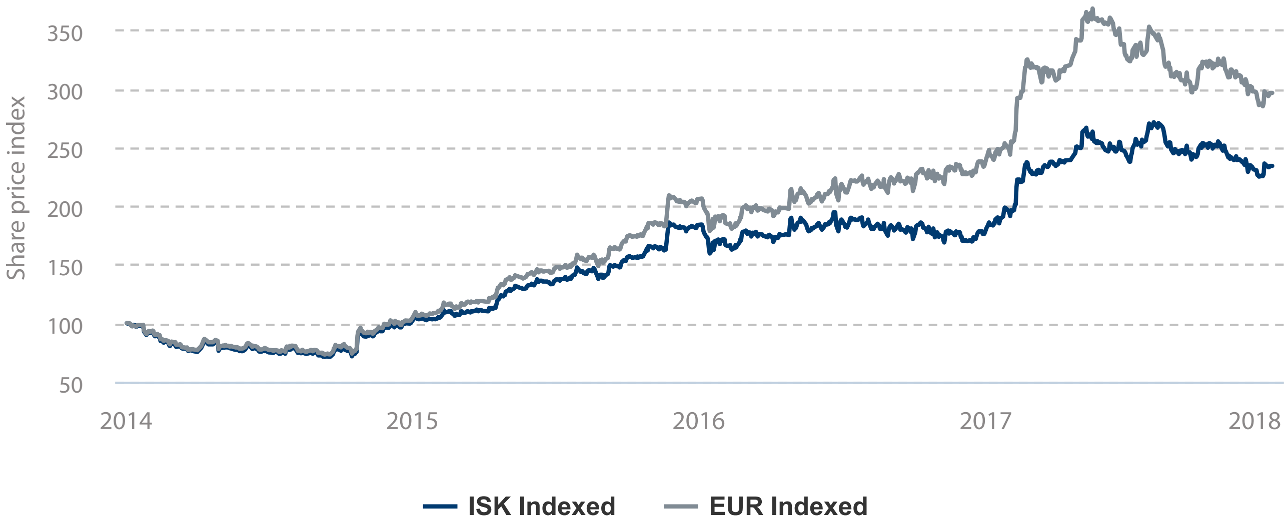
Marel held its first Capital Markets Day in Copenhagen on November 2, 2017. Over 110 investors and analysts attended the event, which was a great success. Members of Marel's executive management team gave comprehensive presentations on the company's business outlook, strategy, development and operations, as well as on future trends in the dynamic and growing food processing industry.

## Website

The investor relations site at www.marel.com/IR provides extensive news and background information on Marel for both analysts and investors.

Archived financial information available in Icelandic and English includes regulatory announcements, corporate events and equity information, share price data, shareholder lists, dividend policy and the financial calendar.

MAREL'S LONG TERM SHARE PRICE DEVELOPMENT




## NASDAQ Iceland

Marel has been listed on the Icelandic stock exchange NASDAQ Iceland since 1992 and all of its regulatory announcements can be found at www.nasdaqomxnordic.com.

25 YEARS LISTED ON NASDAQ ICELAND

## Tickers

Information on Marel is on Bloomberg and Reuters under the tickers MARL1:PZ and MARL.IC respectively.

MARL.IC

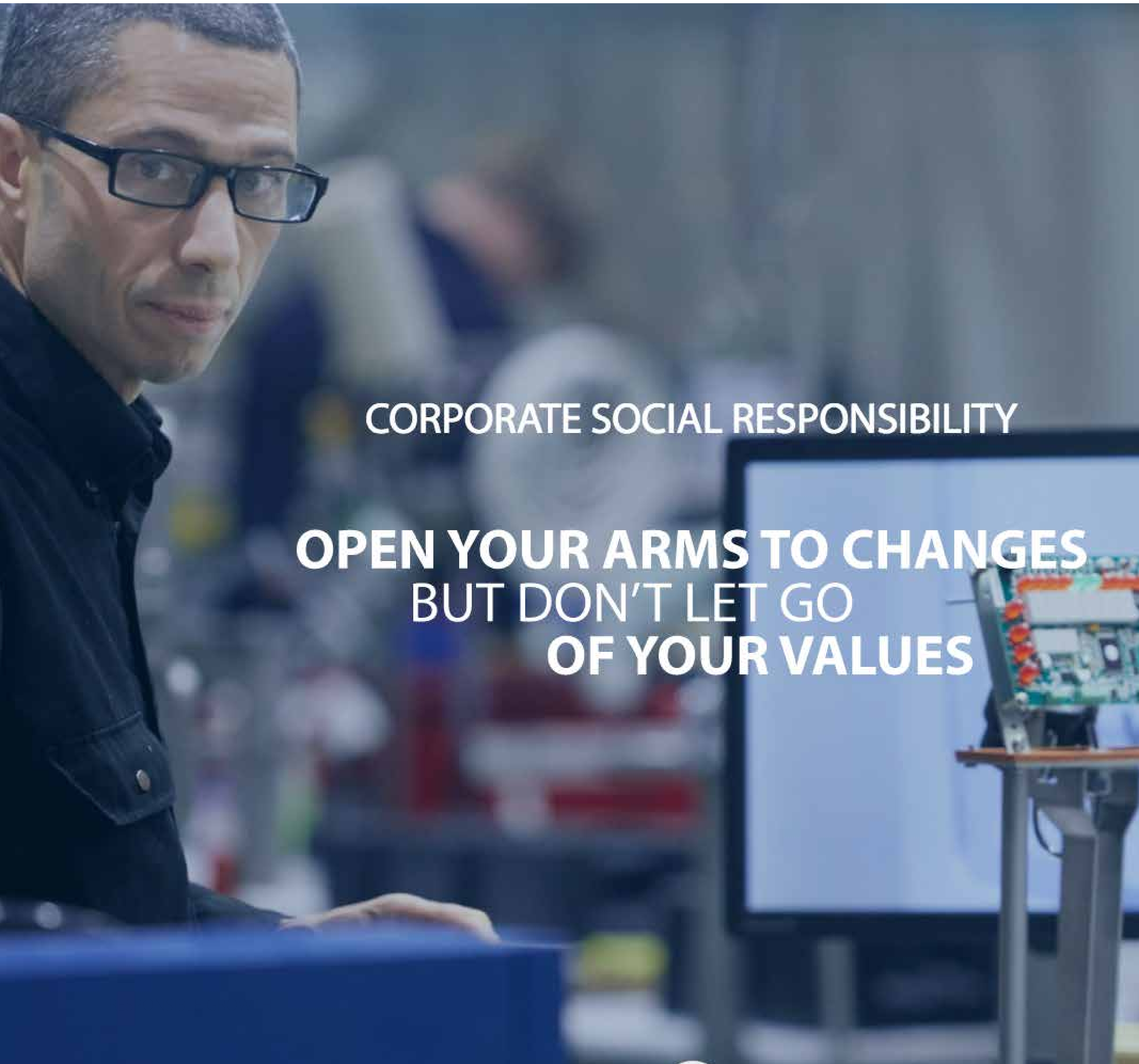
MARL1:PZ

Investor relations

## Contact us

For further information, please contact Tinna Molphy by emailing investor@marel.com or by telephone +354 563 8603.

# RESPONSIBLE GROWTH



## CORPORATE SOCIAL RESPONSIBILITY

**Marel's Board of Directors and Executive Team approved a corporate social responsibility guidance policy for the company in 2016. The policy, which implements the ISO 2600 standards, is now in effect. We are reporting on the company's activities under the new corporate social responsibility policy for the second time.**

Marel does not operate as a business in isolation but is part of a larger society in which we have responsibilities, duties and rights. Our approach is to go beyond simply complying with laws and regulations. We look at our contribution to society as a whole and how we can add value where we operate. Turning words into action, we are a signatory of the United Nations Global Compact. In 2017, we were also part of the NASDAQ Sustainable Markets Initiative for the first time and are following the NASDAQ ESG reporting guidelines.

In line with our corporate social responsibility guidelines, we continuously monitor how our operations and the systems and solutions we provide affect society, economies and the environment. Our relationship with the societies we operate in is symbiotic. We take responsibility for our actions and encourage our suppliers, agents, employees and customers to do the same.

marel

February 27, 2018

I am pleased to confirm that Marel reaffirms its support of the Ten Principles of the United Nations Global Compact in the areas of Human Rights, Labor, Environment and Anti-Corruption.

In this annual communication on progress, we describe the continuous actions we take to improve the integration of the Global Compact and its principles into our business strategy, culture and daily operations. We also commit to sharing this information with our stakeholders using our primary channels of communication.

Sincerely yours,

Arni Thordarson
CEO

UN GLOBAL COMPACT

COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

## Marel CSR guidance policy

### Social responsibility

Social responsibility is a priority in our corporate culture. We are dedicated to providing a safe and healthy working environment with equal opportunities for all of our employees. When we engage with local communities, the focus is on innovation and education. Our employees have the right to freedom of association and we have a zero tolerance policy towards human rights violations and illegal labor conditions.

### Environmental responsibility

Together with our customers and suppliers, we strive to increase yields and minimize waste in food production while promoting food safety, traceability, quality and animal welfare. Sustainability is a key goal in our innovation process. We focus on creating new methods that minimize environmental impact such as CO2 emissions and make the most efficient use of resources including raw materials, water and energy.

### Economic responsibility

Our goal is to generate value for our partners and shareholders through fair trade practices. We seek to promote long-term profitability and good business practices along our entire value chain. Continuous improvements are made to make sure we are compliant with international law, anti-corruption rules and compliance regulations. We believe that all parties must contribute fairly towards the societies in which they operate.

## NASDAQ sustainable markets initiative

In 2017, Marel participated in the NASDAQ Sustainable Markets Initiative for the first time and is following the NASDAQ ESG reporting guidelines.

## ENVIRONMENTAL REPORTING GUIDELINES

| | Metric | 2017 | 2016 |
|---|---|---|---|
| E1 | Direct and indirect GhG emissions | 21,232 $tCO^2e$ | - |
| E2 | Carbon intensity | 20.44 $kgCO^2e$ Per 1000 € | - |
| E3 | Direct and indirect energy consumption | 28.7 GWh | 26.2 GWh |
| E4 | Energy intensity | 83 KWh per $m^2$ | 94.78 KWh per $m^2$ |
| E5 | Primary energy source | Natural Gas | - |
| E6 | Renewable energy intensity | 40% of total energy consumed | - |
| E7 | Water management | - | - |
| E8 | Waste management | - | - |
| E9 | Environmental policy | Yes | Yes |
| E10 | Environmental impacts | Yes | Yes |

## SOCIAL REPORTING GUIDELINES

| | Metric | 2017 | 2016 |
|---|---|---|---|
| S1 | CEO pay ratio | 15.2:1 | - |
| S2 | Gender pay ratio | - | - |
| S3 | Employee turnover ratio | 12.18 | 13.7 |
| S4 | Gender diversity | 15.4/84.6 | 15.3/84.7 |
| S5 | Temporary worker ratio | 0.162 | - |
| S6 | Non-discrimination policy | Yes | No |
| S7 | Injury rate | - | - |
| S8 | Global health policy | Yes | Yes |
| S9 | Child and forced labor policy | Yes | Yes |
| S10 | Human rights policy | Yes | Yes |
| S11 | Human rights violations | No | No |
| S12 | Board diversity | 42.1/57.9 *All independent of Marel* | 42.1/57.9 *All independent of Marel* |

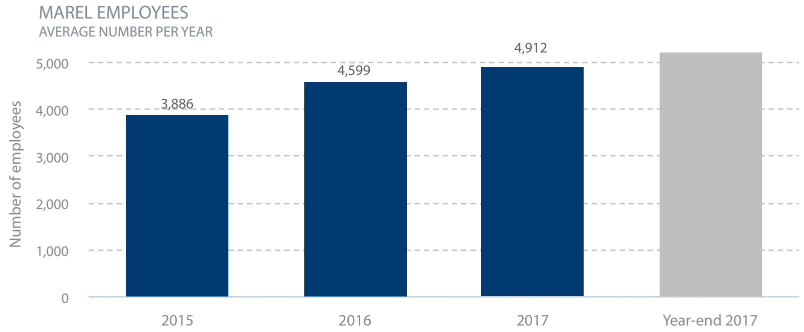
## CORPORATE GOVERNANCE REPORTING GUIDELINES

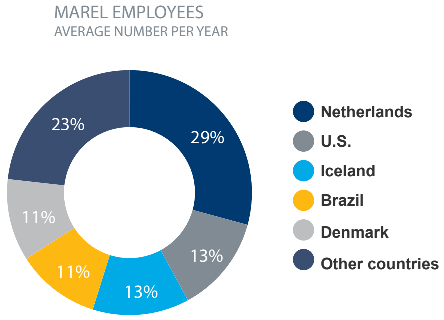
| | Metric | 2017 | 2016 |
|---|---|---|---|
| G1 | Board - separation of powers | No | No |
| G2 | Board - transparent practices | Yes | Yes |
| G3 | Incentivized pay | No | No |
| G4 | Fair labor practices | Yes | Yes |
| G5 | Supplier code of conduct | Yes | Yes |
| G6 | Ethics code of conduct | Yes | Yes |
| G7 | Bribery/ anti-corruption code | Yes | Yes |
| G8 | Tax transparency | No | No |
| G9 | Sustainability report | Yes | Yes |
| G10 | Other framework disclosure | Yes | Yes |
| G11 | External validation assurance | Partial | Partial |

## SOCIAL RESPONSIBILITY

**At Marel, our objective is to develop food processing solutions to help feed the needs of a growing world more safely and efficiently while minimizing the environmental impact. To meet these objectives, we need to act responsibly towards society, our employees, our customers and their social environment. Making Social Responsibility a priority of our corporate culture means we are dedicated to providing a safe and healthy working environment with equal opportunities for all of our employees. We feel it is important to foster individual and team development and to ensure the right of freedom of association for all of our employees.**

One aspect of our Social Responsibility is to engage with the local communities and stakeholders where we operate to seek local participation and insights. We are investing in these locations for the long term. This is not only good for our business, it helps spur innovation and education among our labor force. Naturally, human rights violations, including any forced labor, under-age labor or illegal labor conditions, are not tolerated under any circumstances.




## Human resources

Our Human Resources mission is to engage competent employees and to provide them with a supportive and ambitious work environment that motivates and encourages them to make Marel's vision their own. To do this, we provide excellent training and opportunities for further education and job development. We work hard to promote a spirit of teamwork and co-operation throughout the whole organization.

We recognize the value of cultural diversity, while at the same time encouraging and strengthening our values of unity, innovation and excellence. A policy of open communication, as well as promoting a culture that seeks a healthy balance between work and personal life is important to us and we believe it is no less valuable for our employees.

We believe this will not only help our employees maintain a creative and stimulating work environment but also foster innovation and employee satisfaction that will benefit our company in the long run.

In order to deal with seasonal fluctuations in order processing and other variances in project load Marel employs a number of temporary workers. In 2017 the ratio for full time temporary workers was 16.2% of the total workforce.


**Social responsibility**

## Career development and training in Brazil

In Brazil, Marel has earned a reputation as a sought-after employer because of the training and career development opportunities that we offer. These opportunities are our way of showing our staff that we truly value their efforts and that we care about their well-being.

We have created an environment that encourages staff to develop new knowledge, competences and abilities by offering English courses, technical specialization, business training at university level, open coffees with the management team, leadership and mentoring programs and teamwork training – to name just a few opportunities. In 2017, we held eight internal training sessions and one equipment demonstration and four field technicians completed a mentoring program.

Marel also emphasizes cooperation with local educational bodies and has created a range of traineeships, internships and apprentice part-time programs that have resulted in the recruitment of many of our full-time employees. Last year we hired 12 interns and three apprentices through such programs.

Marel takes its people and their career advancement seriously. We believe that an individual grows when in charge of their own career path and professional development. Therefore, we give them that opportunity.

## Safety, health and environment

Providing a safe and healthy working environment for all our employees and contractors working in Marel facilities is the right thing to do and we take pride in doing it well. Safety, health and the environment concern everybody and we do our utmost to make sure our employees have the necessary competence, tools and instructions to perform their work professionally and safely.

Every Marel employee is also accountable for his or her own safety. Local management of all Marel entities are responsible for assuring that processes and procedures are established within their entity that comply with Marel's safety, health and environment policy and local laws.

A Marel Safety, Health and Environment (SHE) Support Team monitors compliance with the Marel SHE Policy and facilitates the process for improvement.

## Diversity

A global diversity policy was adopted by the Board of Directors in 2017 and will be implemented from 2018 onwards. Its objective is to ensure equality and diversity within Marel as well as increasing job satisfaction and well-being in the workplace. We aim to make sure that employees are not discriminated against on the grounds of their gender, beliefs, nationality, race, sexual orientation, religion, color, personal finances, family, age or on any other grounds.

We believe this policy will help make Marel a more desirable and responsible workplace that will, in turn, attract and keep the most qualified employees. Our global diversity policy applies to all Marel employees and governance bodies, including the Board of Directors, its sub-committees and the Executive Team.

The diversity policy rests on the four following pillars, each equally important:

1. Ensuring equal opportunity
2. Promoting a company culture of tolerance and integration
3. Acting strong and decisively against any bullying, violence or harassment
4. Increasing the visibility of Marel

The data and statistics on diversity that we collect are systematically evaluated to ensure successful implementation of the policy. The results will be presented in a clear and organized manner and used to help management understand where we need to improve and where we are performing well in terms of diversity.

### NEW HIRES BY GENDER

| | 2017 | 2016 |
|---|---|---|
| Female | 19.9% | 18.5% |
| Male | 80.1% | 81.5% |

### TURNOVER RATE

| | 2017 | 2016 |
|---|---|---|
| Marel total | 12.2% | 13.7% |

### COMPOSITION OF GOVERNANCE BODIES AND BREAKDOWN BY GENDER

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Female | Male | Total | Female | Male | Total |
| Board of Directors | 42.9% | 57.1% | 7 | 42.9% | 57.1% | 7 |
| Executive Team | 9.1% | 90.9% | 11 | 9.1% | 90.9% | 11 |
| Employees | 15.4% | 84.6% | 4,301* | 15.3% | 84.7% | 3,861** |

* Excluding contingent workers and Sulmaq employees

** Excluding MPS employees


## Forced labor and under-age workers

We have a zero-tolerance policy at Marel where human rights violations are concerned, including child labor and/or illegal labor conditions. All our employees must have reached the legal working age in the country where they work. None of our facilities are allowed to be associated with illegal labor conditions or forced labor. In 2017, we required all new suppliers to comply with the same standards as Marel does on issues related to human rights and labor, as described in our Code of Conduct.

No human rights violations were reported in 2017.

## Freedom of association

We are committed to respecting all employees' freedom of association and right to collective bargaining without discrimination, as established in the Freedom of Association and Protection of the Right to Organize Convention (C. 87), and the Right to Organize and Collective Bargaining Convention (C.98). We ensure that these rights can be exercised by all our employees and those of our business partners directly associated with Marel's services, products and operations.

## Engagement with local communities

Our main involvement in local communities occurs through our operations in the countries where we work. We focus mainly on educational outreach in collaboration with local educational institutions and through continuing education of our own employees. Many of our production facilities have internship and trainee programs to assist talented young professionals entering the workforce in developing their skills in a professional and safe environment.

Another aspect of engaging with local communities is our commitment to fast-track economic development in underdeveloped countries. By introducing new food processing technologies to these locales, we have immediate and radical effects on production capabilities, worker safety and food traceability. One of the main growth sectors for us is the creation of shared value through partnerships in new markets. We intend to deliver market-altering solutions that increase both general well-being and economic progress in all the markets where we operate.

## ENVIRONMENTAL RESPONSIBILITY

**Throughout our value chain we encourage and promote the most efficient use of resources to minimize environmental impact and prioritize environmental protection. Innovation is at the core of this strategy. We continuously focus on creating new methods for improving yields and minimizing waste in food production by reducing the use of scarce resources such as energy and water while promoting food safety, traceability and animal welfare.**

One of our sustainability goals is to help our customers use less water and energy while minimizing their CO2 footprint during production. A number of projects have been implemented to support precautionary approaches to environmental challenges. We have undertaken initiatives to promote greater environmental responsibility along our entire value chain.

In 2017 we added a Sustainability Scorecard to the product development process, which encourages inclusion of sustainable features from the beginning of the product development process.

40% FROM RENEWABLES
OF ALL ELECTRICITY CONSUMED BY MAREL

## Energy

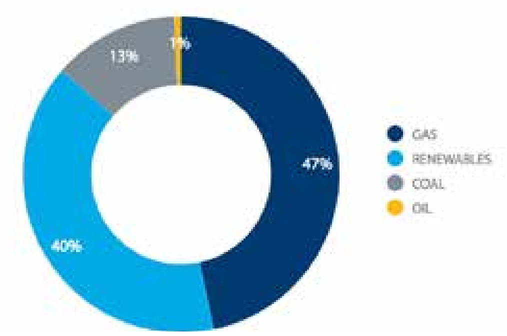
Projects that we have instituted to minimize energy consumption at Marel include installing car charging points for employees and visitors who own electric cars, replacing regular light bulbs with LED lighting where feasible and undertaking a number of local projects prioritizing energy efficiency. We are also constantly upgrading our own manufacturing equipment to increase its energy efficiency along with other capabilities.

Our primary energy sources are natural gas and renewables with almost 47% of all electricity consumed by Marel produced by burning natural gas and 40% obtained from renewables.

### ENERGY CONSUMPTION & INTENSITY

| | 2017 | 2016 |
|---|---|---|
| Total GWh | 28.7 | 26.2 |
| KWh per m$^2$ | 83.0 | 94.8 |
| KWh per employee | 5,912 | 5,706 |

MAREL'S ELECTRICITY CONSUMPTION IN 2017 BY ORIGIN




Environmental responsibility

## Promoting sustainable use of water

One example of how we work to protect the environment and promote sustainability is our water treatment systems, which are designed to ensure the most efficient use of water. These include systems that treat waste water so that it can be re-used in food processing operations. Food processing requires significant amounts of water, both for the processing itself as well as for other functions. It inevitably produces large quantities of waste water. We have developed expertise in the treatment of such waste water through more than five decades of partnership with our customers.

**"A PLANT PROCESSING 650 PIGS PER HOUR OVER 16 HOURS (TWO EIGHT-HOUR SHIFTS) CONSUMES ON AVERAGE 2600 M$^3$ OF WATER PER DAY "**

### A solution to fit every customer

Marel's Curieau® water treatment system is just one example of many systems we have designed for different specific water treatment purposes. Curieau® has been developed as a production or re-use system using biologically pre-treated waste water. The processed water can be used for cooling towers, truck and crate washing and other secondary systems with no direct contact with end products. As clean water becomes an increasingly scarce and valuable resource, being able to treat waste water so that it can be re-used in processing operations, as is done with the Curieau® system, rather than simply discharging it is one way we promote environmental sustainability.

## Carbon emissions

Despite our efforts to continually minimize our environmental footprint, overall carbon emissions have risen simply due to the fact that the company continues to expand. The two largest indirect contributors to our carbon footprint are energy consumption in Marel facilities and employee air travel.

In order to better understand the indirect carbon footprint of the energy we consume in our facilities, all locations now report on the generation source of energy used to produce the electricity used in our facilities.

This data is then processed by our collaborators from Circular Solutions who verify our carbon footprint.

- Scope 1 emissions are very limited because no Stationary Combustion occurs in facilities controlled by Marel and Mobile Combustion is limited to only 150 vehicles. Scope 1 is therefore not measured.
- Scope 2 emissions data are solely from the electricity and heating used in our offices and manufacturing facilities.
- Scope 3 emissions are mainly the result of employee air travel. Logistics are not included.

In order to understand and minimize our indirect carbon footprint, all of our larger facilities are installing an energy monitoring system from eTactica. Locations undergoing renovations are also installing solar cells on their roofs to generate locally some of the energy consumed on site.

### 4,500 CARS DRIVING IN A YEAR

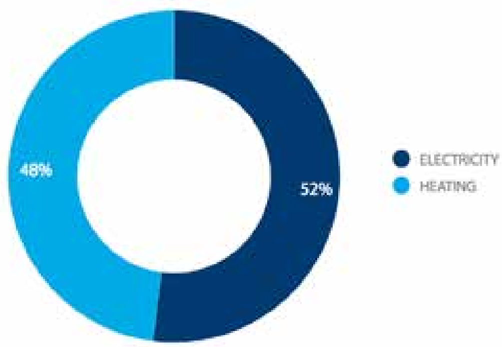
ESTIMATED CARBON EMISSIONS OF MAREL

Because Marel's company network spans the globe, air travel by Marel employees has a negative impact on the environment. As carbon emissions from the aviation industry are considered a leading contributor to global warming, we feel it is important to understand our role and what we can do about it.

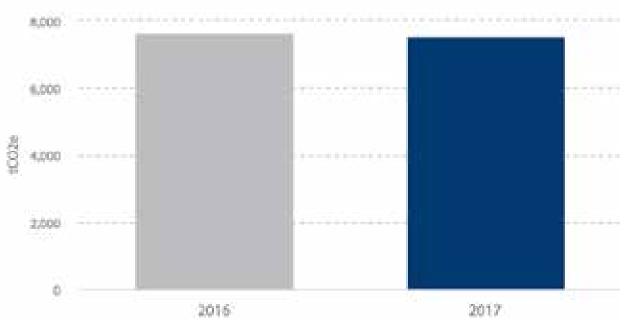
In 2016, we established a new travel platform to monitor the environmental impact caused by employee travel. By collecting and visualizing this data we have already made improvements and identified possibilities for reducing our carbon footprint when it comes to employee travel.

Through our travel policy, we will strive to continuously lower our carbon footprint by actively encouraging employees to use alternative means of meeting and communicating with each other and our customers.

HEATING AND ELECTRICITY IN 2017




EMPLOYEE AIR TRAVEL IN 2017



## Total carbon emissions

As yet, Marel lacks a complete overview of the organization's total carbon emissions. We will nevertheless continue our work on measuring our footprint and improve - wherever we can - our understanding of the company's impact on the environment and efforts in response.

Marel is currently not participating in carbon offsetting programs or green energy certification. We will continue to increase the prevalence of renewable energy used by procuring cleaner energy wherever possible as well as improving efficiency in our production processes, employee travel and other operations.

### CARBON EMISSION AND INTENSITY

| | 2017 |
|---|---|
| Total kgCO$^2$e | 21,231,964 |
| kgCO$^2$e per FTE | 4,322 |
| kgCO$^2$e per €1,000 of revenues | 20.44 |

## Animal welfare

Our commitment toward social responsibility extends beyond our employees and customers. Because we are in the food processing business, animal welfare is high on our agenda particularly for research and development. In 2017, a sustainability scorecard was introduced as part of the company's innovation process, where a number of sustainability indicators play a role in deciding the feasibility of taking projects into further development. By highlighting animal welfare in the sustainability scorecard we are ensuring environmental and economic responsibility in the most crucial stages of the lifecycle of the product. By instituting good animal welfare practices in general, we can increase the quality of products and production while simultaneously reducing the carbon footprint of food processors using Marel solutions.

Over the years, we have introduced a number of innovative solutions that take animal welfare into greater consideration. These include:

- CAS SmoothFlow stunner
- ATLAS system
- CO2 Stunning
- Live Pig Handling

Throughout the food processing industry, it has become mandatory for companies to follow guidelines of social responsibility and sustainability in their operations and to consider the effects they have on people, the planet and profits. We are determined to stay ahead of the general market trends and continue our focus on developing solutions that respect the highest standards of animal welfare.

# ECONOMIC RESPONSIBILITY

**Throughout our company we promote good business practices along our value chain through transparency, innovation and collaboration with all our partners. Long-term profitability and fair trade are vital aspects of how we want to conduct our business. Continuous improvements are made to make sure that we, our partners, customers and suppliers are compliant with international law, anti-corruption rules and compliance regulations. We believe that all parties must contribute fairly towards the societies in which they operate.**

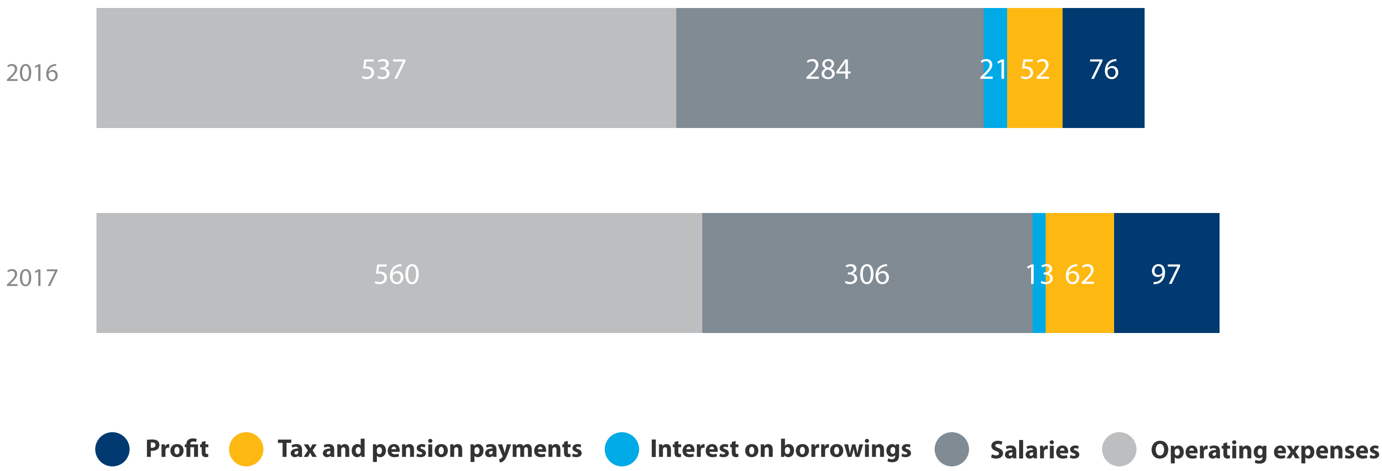
## Economic value generated

We operate a global network of sales and service units and produce a range of products that are manufactured in the Netherlands, the United States of America, Iceland, Denmark, England and Slovakia.

The economic value generated by our operations in 2017 amounted to EUR 1038.2 million, consisting of sales and gains on sales of assets. Furthermore, we directly employed an average of 4,912 full-time employees in 2017.

The contributions we make to the societies in which we operate consist of many different elements, including salaries paid to employees and goods and services purchased from local suppliers.

Salaries paid during the year, excluding related expenses, amounted to EUR 306.2 million, or 29.5% of the economic value generated.



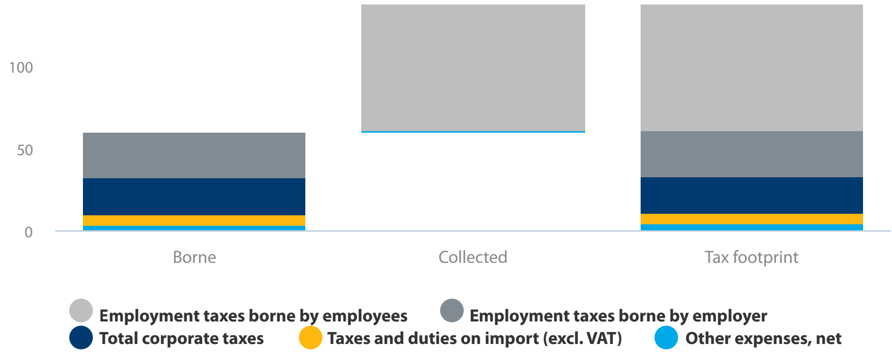
## Tax footprint

Taxes paid by Marel in 2017 amounted to EUR 59.7 million (2016: 52.2 million) or 5.7% of the economic value generated.

Employment taxes represented 46% of the levies during the period and 38% are corporate income taxes. In addition to the direct taxes, Marel collects and pays various taxes and duties on behalf of governments.

Total taxes and duties collected in 2017 amounted to EUR 77.2 million (2016: 72.7 million).

In 2017, the total tax footprint amounted to EUR 136.9 million (2016: 124.9 million).




**Economic responsibility**

## New thigh filleting system adds value

Improving quality, yield and throughput for our customers is one of our top priorities when developing new equipment and solutions. The Marel Poultry thigh filleting solution provides our customers with the opportunity to maximize the value of a leg by increasing yield per broiler, resulting in higher volumes and retail quality end-products from thigh fillets. The filleting solution also creates a new high-value product from the kneecap, a by-product in some markets but an in-demand delicacy in others.

**Increasing yield and creating new end-products**

The thigh filleting solution is a high-speed, fully in-line process for deboning legs and can process up to 14,400 thighs per hour, an unrivalled speed and volume in the industry. These volumes will allow the thigh meat market to grow and develop further. The new solution uses a well defined combination of deboning technologies, enabling proccesors to harvest retail quality thigh meat that can be sold as fillets. For maximum yield, meat is scraped off the kneecap and attached to the fillet, leaving the kneecap intact to be harvested separately. With competitors' equipment, the kneecap remains attached to other parts of the leg or is cut and damaged, affording poultry processors a more limited variety of possible products and lower quality. Another advantage of the system is the reduced need for manual labor as well as low bone content, minimizing the amount of rework needed and increasing levels of food safety. All of which makes the entire process more efficient and cost-effective.

Combined with various automated, high-speed slicing solutions, our efficient thigh filleting system offers very profitable product opportunities for our customers. They can now create a wider range of high quality, high-yield and in-demand poultry products, that have a positive impact on their bottom line.


## Innovation

Innovation is the creation and delivery of new customer value in the marketplace. In our experience, new innovations most often originate from the partnerships between customers and our employees with the collaborative aim of solving problems and improving processing in a new way.

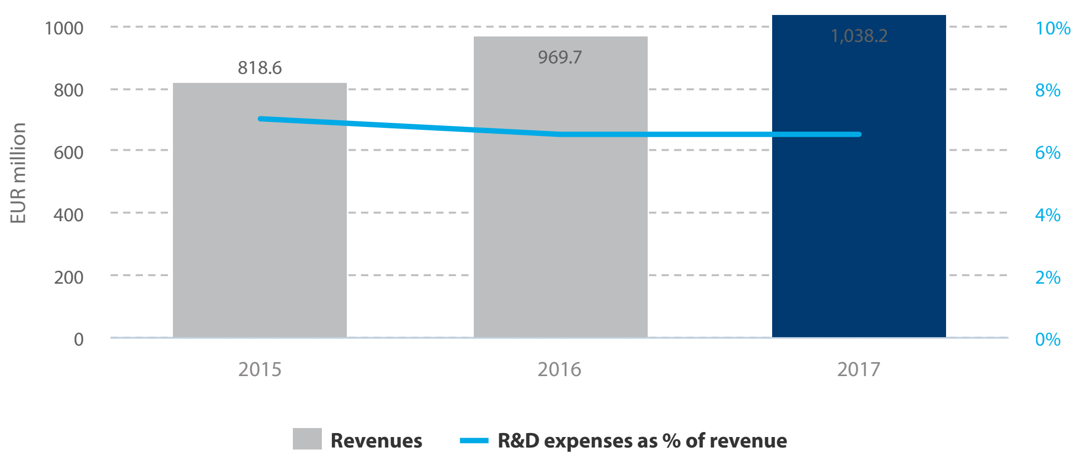
We invested over EUR 58 million, or around 6% of revenues, in creating and delivering new value for our customers through innovation in 2017. These innovative efforts represent a full range: from breakthrough improvements in our products, to design upgrades and incremental additions to existing machines and systems. By working closely with our customers and employees we are making lasting equipment that stays competitive and meets the diverse needs of our customers.

## Anti-bribery
## Anti-corruption

We know that our company's reputation is crucial to our success. Therefore, compliance with global anti-bribery and anti-corruption laws and regulations is taken very seriously. The anti-bribery and anti-corruption policy adopted in January 2017 reinforces our commitment. It applies to all employees, officers and directors as well as any contractors, consultants, agents and other business partners engaged in business on behalf of Marel.

As an international company, we adhere to the anti-bribery and anti-corruption laws of all the countries in which we operate around the world.

RESEARCH AND DEVELOPMENT EXPENSES



# CORPORATE GOVERNANCE STATEMENT

**Icelandic law and the company's corporate governance framework determine the duties of the various bodies within the company. They define and dictate how the company is directed and controlled – including the interaction between the CEO, who is responsible for day-to-day management, the Board of Directors, shareholders, regulators and other stakeholders.**

Marel hf. (also referred to as the "company") is committed to the general principles of good corporate governance. In 2015, Marel launched an external audit of its corporate governance structure and procedures, followed by a certification of the same. In January 2016, the company received recognition as "Exemplary in Corporate Governance" from the Center for Corporate Governance at the University of Iceland.

## 1. Corporate governance framework and compliance

Marel's corporate governance consists of a framework of principles and rules, including its Articles of Association and the Guidelines on Corporate Governance issued in June 2015 by the Iceland Chamber of Commerce, NASDAQ Iceland and the Confederation of Icelandic Employers, accessible on the website of Iceland's Chamber of Commerce.

In general, the company is in compliance with the Guidelines on Corporate Governance, with the following exception:

The company does not have a Nomination Committee. Marel's Board of Directors regularly evaluates its work, composition and directors' independence to ensure the members of the Board jointly possess the relevant knowledge, experience and skills to perform the Board's tasks and responsibilities in the company's best interest. The Board initiates discussions with the company's largest shareholders on Board composition and long-term succession planning.

## 2. Main aspects of internal controls and the company's risk management in connection with preparation of financial statements

The CEO is responsible for ensuring sufficient internal control and risk management in connection with financial reporting. The Board of Directors has an ongoing dialogue with the CEO on the identification, description and handling of the business risks to which the company may be exposed. Material risks are discussed in the Consolidated Financial Statements 2017.

**Internal audit and control**

The company's risk management and internal controls for financial processes are designed to minimize effectively the risk of material misstatements in financial reporting. The company's internal auditor reports to the Board's Audit Committee and plays a key role in internal control.

**External audit**

An independent auditing firm is elected at the Annual General Meeting (AGM) for a term of one year. The external auditors examine the company's annual accounts in accordance with generally accepted auditing standards and for this purpose inspect its accounting records and other material relating to the operation and financial position of the company. The external auditors report any significant findings regarding accounting matters and any significant internal control deficiencies via the Audit Committee to the Board of Directors.

KPMG ehf. was elected as the company's auditor at the company's AGM held on 2 March 2017. Auditors on KPMG's behalf are Sæmundur Valdimarsson and Hrafnhildur Helgadottir, both Certified Public Accountants (CPAs). They have audited and endorsed without reservation Marel's consolidated financial statements for the year 2017.

## 3. The company's values, code of conduct and social responsibility policy

**Values**

Marel's company values are shared ideals and standards, providing direction in its everyday operations. The company's employees took part in defining the values, which are: Unity, Excellence and Innovation. These values are continuously promoted in daily operations.

**Corporate social responsibility (CSR) and diversity**

Marel's CSR guidelines were approved by the Board of Directors and Marel's Executive team in 2016.

Further information on CSR and diversity policies are provided in the chapter on CSR in Marel's Annual Report.

**Code of conduct**

The Board of Directors of Marel approved a Code of Conduct with global application in October 2012, which was revised in July 2016. It is closely linked to Marel's company values and rests on four pillars, i.e. employees' (including officers' and directors') commitment to: (i) each other; (ii) customers and the marketplace; (iii) shareholders, and (iv) partners, communities and the environment.

## 4. Composition and activities of the board of directors, its sub-committees, the CEO and Executive Team

The company has a two-tier management structure consisting of the Board of Directors and Executive Team, led by the Chief Executive Officer. The two bodies are separate and no person serves as a member of both.

**Board of directors**

The company's Board of Directors is the supreme authority in the affairs of the company between shareholders' meetings. It is elected by shareholders at the AGM for a one-year term and operates in accordance with applicable Icelandic laws and regulations, the company's Articles of Association and the Board's Rules of Procedure. The Board currently comprises seven Board members who were elected at the company's AGM on 2 March 2017.

The Board of Directors is responsible for the company's organization, for promoting the development of its long-term performance and ensuring proper conduct of its operation at all times. The Board decides all matters regarded as extraordinary or of major consequence in accordance with the statutory division of responsibilities between the Board, CEO and executive team. The Board sets targets for the company reflecting its objectives and formulates strategic policy to achieve these goals.

Regular board meetings are held with management over the course of the year, including quarterly meetings coinciding with publication of financial results, two off-site strategy sessions and an operational planning meeting for the coming year. On-site visits to company locations as well as to customers are conducted each year. In addition, the Board of Directors meets at least once a year without management to structure its own agenda and conduct a self-assessment. Additional meetings are convened as needed. All matters dealt with at Board meetings are decided by majority vote, provided that the meeting has been lawfully convened. In the event of a tie vote, the Chairman casts the deciding vote. However, important decisions are not taken unless all members of the Board have been given an opportunity to discuss the matter.

The Board of Directors convened 12 times in 2017, with a weighted average attendance of 98%.

The Board of Directors has assessed which Board members are independent according to the Guidelines on Corporate Governance. All seven Board members, Ann Elizabeth Savage, Arnar Thor Masson, Asthildur Margret Otharsdottir, Helgi Magnusson, Margret Jonsdottir, Astvaldur Johannsson and Olafur S. Gudmundsson, are considered independent of the company. Furthermore, five of the Board members, Ann Elizabeth Savage, Arnar Thor Masson, Asthildur Margret Otharsdottir, Helgi Magnusson and Astvaldur Johannsson, are considered independent of the company's major shareholders.

Once a year, the Board of Directors evaluates the work, results, size and composition of the Board and the Board's sub-committees. In 2017, the Board engaged an external advisor to facilitate the evaluation, which included a thorough anonymous questionnaire, a peer assessment and one-on-one interviews with both members of the Board and senior management. Furthermore, the Board evaluates the work and results of the CEO according to previously established criteria, including whether the CEO has prepared and carried out a business strategy consistent with the company's established goals. The Board discusses the results of the assessment and decides on any actions to be taken.

**Sub-committees**
The Board's work is supported by its sub-committees, the Remuneration Committee and Audit Committee. Sub-committee members are appointed by the Board of Directors for a term of one year, in accordance with the rules set for each sub-committee by the Board.

**Remuneration committee**
The Remuneration Committee is composed of three Board members unless the Board decides otherwise. The majority of the Remuneration Committee shall be independent of the company and possess the knowledge and expertise needed to perform the Committee's tasks. The Remuneration Committee is intended to assist the Board in ensuring that compensation arrangements support the strategic aims of the company and enable the recruitment, motivation and retention of senior executives while also complying with legal and regulatory requirements. The Committee is responsible for ensuring that the performance of the Board and CEO is evaluated annually and that succession planning is conducted.

The current Board decided to appoint four members to the Remuneration Committee as of March 2017: Asthildur Margret Otharsdottir (Chair), Ann Elizabeth Savage, Arnar Thor Masson and Olafur S. Gudmundsson.

The Remuneration Committee met 5 times in 2017. All meetings were fully attended.

**Audit committee**
The Audit Committee is composed of three or four Board members unless the Board decides otherwise. The majority of the Audit Committee shall be independent of the company and its external auditors and at least one member shall be independent of shareholders holding 10% or more of the company's total share capital. Members of the Audit Committee must possess the knowledge and expertise needed to perform its tasks. At least one member needs to have solid knowledge and experience of financial statements or auditing. Its work includes monitoring Marel's financial status and evaluating the company's internal monitoring and risk management systems, management reporting on finances, whether laws and regulations are followed and the work of the company's internal and statutory auditors.

Members of the Audit Committee since March 2017 are Arnar Thor Masson (Chairman), Astvaldur Johannsson, Margret Jonsdottir and Helgi Magnusson. All members are independent of the company and its auditors, Arnar, Astvaldur and Helgi are independent of large shareholders.

The Audit Committee convened 6 times in 2017. All meetings were fully attended.

THE REMUNERATION COMMITTEE
IS COMPOSED OF THREE OR FOUR BOARD DIRECTORS

5

THE REMUNERATION COMMITTEE
CONVENED 5 TIMES IN 2017

THE AUDIT COMMITTEE
IS COMPOSED OF THREE OR FOUR BOARD DIRECTORS

6

THE AUDIT COMMITTEE
CONVENED 6 TIMES IN 2017

| STRUCTURE OF BOARD'S SUBCOMMITTIEES | BOARD OF DIRECTORS | REMUNERATION COMMITTEE | AUDIT COMMITTEE |
|---|---|---|---|
| ASTHILDUR MARGRET OTHARSDOTTIR | Chairman | Chair | |
| ARNAR THOR MASSON | Vice-Chairman | Member | Chair |
| ANN ELIZABETH SAVAGE | Director | Member | |
| ASTVALDUR JOHANNSSON | Director | | Member |
| HELGI MAGNUSSON | Director | | Member |
| MARGRET JONSDOTTIR | Director | | Member |
| OLAFUR S. GUDMUNDSSON | Director | Member | |
| CONVENED IN 2017 | 12 TIMES | 5 TIMES | 6 TIMES |

MEMBER CHAIR

## Chief Executive Officer

Arni Oddur Thordarson assumed the position of CEO of Marel in November 2013. He has extensive international business experience within the industrial sector. Thordarson has served on the Board of Directors of Marel since 2005, for most of that time as Chairman. He has an MBA degree from IMD Business School in Switzerland and a Cand. Oecon. degree in Business Administration from the University of Iceland.

Thordarson is an Icelandic citizen, born in 1969. Thordarson and related parties hold 131,869 shares in Marel. He is a major shareholder of Eyrir Invest, which on 7 February 2017 held 190,366,838 shares in Marel hf. (25.88% of total issued shares).

I. The CEO is responsible for daily operations and is obliged to follow the Board's policy and instructions in that regard. The daily operations do not include measures which are un usual or extraordinary. The CEO may only take such measures if specifically authorized by the Board or unless it impossible to wait for the Board's decision without substantial disadvantage to the company's operations. In such an event, the CEO shall inform the Board of his/her actions, without delay.

II. The CEO is responsible for the work and results of the Executive Team.

III. The CEO shall act as Chairman of the Board in the company's material subsidiaries which are connected with the sales and manufacturing activities and/or the core activities of the company, unless the Board decides otherwise.

IV. The CEO shall ensure that the accounts of the company conform to law and accepted practices and that the treat ment of company assets is secure. The CEO shall provide any information that may be requested by the company's Auditors.

At least once a year the CEO shall evaluate the work and results of the Executive Team, for which he is responsible, according to previously established criteria. The CEO shall discuss the results of the assessment with each member of the Executive Team and decide on any actions to be taken.

At least once a year, the Chairman and the CEO hold a meeting to discuss the results of the Board's assessment of the CEO's work and performance and any proposed actions in response. The CEO reviews with the Chairman the results of his/her evaluation of the Executive Team and what actions may be needed, if any. The Chairman reports to the Board of Directors on discussions with the CEO as he/she deems necessary and appropriate.

Upper left: Jesper Hjortshoj, David Freyr Oddsson, Vidar Erlingsson, Arni Sigurdsson, Linda Jonsdottir and Petur Gudjonsson.
Lower left: Sigurdur Olason, David Wilson, Arni Oddur Thordarson, Folkert Bölger and Anton de Weerd.

## Executive Team

The company's Executive Team is composed of eleven members:

**Executive**

Arni Oddur Thordarson, Chief Executive Officer
Linda Jonsdottir, Chief Financial Officer
Arni Sigurdsson, EVP Strategy and Corporate Development

**Business units**

Anton de Weerd, Managing Director (EVP) of Poultry
David Wilson, Managing Director (EVP) of Meat
Sigurdur Olason, Managing Director (EVP) of Fish
Jesper Hjortshøj, Managing Director (EVP) of Further Processing

**Operations**

Petur Gudjonsson, EVP Commercial
Folkert Bölger, EVP Supply Chain
Vidar Erlingsson, EVP Innovation
David Freyr Oddsson, EVP Human Resources

## 5. Communication between shareholders and the Board of Directors

Shareholders' meetings, within the limits established by the company's Articles of Association and statutory law, are the supreme authority in Marel's affairs as well as the primary means of communication between shareholders and the Board of Directors. The AGM is held each year before the end of August and other shareholders' meetings are convened when necessary. The AGM is advertised publicly with at least three weeks' notice in accordance with Icelandic law.

The Chairman is the Board's authorized spokesperson. The Board of Directors does not engage in communication regarding details of the company's operational matters and financial results, which is the responsibility of authorized members of management.

The Chairman communicates with the company's largest shareholders on an annual basis with the objective of exchanging view on matters related to corporate governance, as well as establishing trust and understanding. All communication with shareholders is governed by rules and regulations on price-sensitive and non-public information (insider information) and on other sensitive business information which could compromise the company's competitive position.

From left: Asthildur Otharsdottir, Astvaldur Johannsson, Ann Savage, Arnar Masson, Olafur S. Gudmundsson, Margret Jonsdottir and Helgi Magnusson.

## Chairman of the Board

**Asthildur Margret Otharsdottir**
Asthildur Margret Otharsdottir is an independent consultant and a board member of several companies. She has extensive business experience. She served as the Director of Treasury and Corporate Development at Össur hf. and as a Senior Account Manager at Kaupthing Bank (now Arion Bank), as well as a consultant at Accenture in Copenhagen. She is the Chairman of the Board of the investment fund Frumtak Ventures and a member of the Board of Directors of Icelandair Group. Otharsdottir is on the board of the University of Iceland and the Court of Arbitration at the Icelandic Chamber of Commerce.

**Education**
MBA, Rotterdam School of Management, The Netherlands, 1996.
Cand. Oecon., University of Iceland, 1992.

**Elected**
2013 Chairman of the Board.
2010 Board member.

**Holdings in Marel**
32,000

## Vice-chairman of the Board

### Arnar Thor Masson

Arnar Thor Masson is currently the Alternate Director at the European Bank for Reconstruction and Development in London and serves as the Chairman of Marel's Audit Committee. He has extensive experience in re-organization, strategy and project management. He served as Director General of the Department of Administrative Development at the Prime Minister's Office in Iceland and Deputy Director General of the Financial Management Department at the Ministry of Finance. Masson held an adjunct lecturer position at the Department of Political Science of the University of Iceland from 2000 till 2008.

**Education**
MS, Comparative Politics, London School of Economics and Political Science, 1997.
BA , Political Science, University of Iceland, 1996.
Studied securities brokerage in 2007.
High Performance Boards, executive course for supervisory board members and chairpersons, IMD Business School, 2014.

**Elected**
2013 Vice-chairman
2001 Board member

**Holdings in Marel**
0

## Board director

### Olafur S. Gudmundsson

Dr. Olafur S. Gudmundsson is the Head of Discovery, Pharmaceutics at Bristol-Myers Squibb, a global biopharma company. He has previously held various senior level management positions within R&D in the pharmaceutical industry, both for Bristol-Myers Squibb and Genentech Inc. He is also associated with the Pharmaceutical Chemistry department at Purdue University.

**Education**
PhD, Pharmaceutical Chemistry, University of Kansas.
Cand. pharm., Pharmacy, University of Iceland.

**Elected**
2014

**Holdings in Marel**
1,705,427

## Board director

### Astvaldur Johannsson

Astvaldur Johannsson has extensive international business experience, having served in various senior management positions at Össur hf., a global non-invasive orthopedics corporation, and as the Executive Director of the International Division of Valitor hf., an e-commerce payment solutions and services provider. He held a director membership of the executive team at Nyherji hf., an IT company, as well as being Managing Director of Penninn, an office and business supply chain. Johannsson has extensive experience as a system analyst expert within the IT sector, focusing on process design, development and leading projects in the field.

**Education**
MBA, University of Iceland.
BS, Management Information Systems, Heriot-Watt University.

**Elected**
2014

**Holdings in Marel**
0

## Board director

### Margret Jonsdottir

Margret Jonsdottir is the Managing Director of Operations for Eyrir Invest hf. Previously, she was the Director of Finance at Edda Publishing. She also worked as the Director of Finance at Kreditkort/ MasterCard and the Manager of Accounts at FBA Investment Bank. Prior to that, she spent a decade as the Director of Finance at the Industrial Loan Fund (the FBA Investment Bank's predecessor).

**Education**
MS, Accounting and Auditing, University of Iceland.
Cand. oecon., Business Administration, University of Iceland.

**Elected**
2006

**Holdings in Marel**
195,113

## Board director

### Helgi Magnusson

Helgi Magnusson is the Chairman of the Board of the Blue Lagoon, Harpa Holding and Husasmidjan. He also serves as a board member of several Icelandic companies, including N1 and Hofgardar. Magnusson was the Chairman of the Federation of Icelandic Industries from 2006 to 2012 and a member of the Board of Directors and the Executive Board of the Confederation of Icelandic Employers from 2006 to 2013. Magnusson has also been a board member of Islandsbanki hf., the Framsyn Pension Fund, the Pension Fund of Commerce, Siminn and the Icelandic Chamber of Commerce. He was the Managing Director of Harpa and HarpaSjöfn paint factories for several years and the Chairman of the Board of Harpa, HarpaSjöfn and Flügger Iceland.

**Education**
CPA, Certified Public Accountant, University of Iceland.
Cand. Oceon., Business Administration, University of Iceland.

**Elected**
2005

**Holdings in Marel**
2,779,044

## Board director

### Ann Elizabeth Savage

Ann Savage served as the Technical Director of Bakkavor Group, a leading international manufacturer of fresh prepared foods. Her main responsibilities included food safety, health and safety management, manufacturing excellence and environmental management. She was also a member of the company's management board. Savage has held a variety of roles in technical and R&D departments within the retail and food industry over her 35-year career. She worked for the Cooperative Wholesale Society (CWS), Northern Foods from 1990 till 1999 and at Geest/ Bakkavor for over 16 years.

**Education**
Studied at the Open University.
Post Graduate Diploma in Management Studies, Nottingham University.

**Elected**
2013

**Holdings in Marel**
0

ALL HOLDINGS AT DECEMBER 31, 2017

## Chief Executive Officer

### Arni Oddur Thordarson

Thordarson has extensive international business experience within the industrial sector. Before taking up his current position as Marel's CEO in November 2013 he was the CEO of Eyrir Invest, which he co-founded in 2000. Thordarson served on the Board of Directors of Marel between 2005 and 2013, the majority of the time as Chairman.

**Education**
MBA, IMD, Switzerland, 2004.
Cand. Oecon., Business Administration, University of Iceland, 1993.

**Holdings in Marel**
131,869

## Executive Vice President Global Supply Chain

### Folkert Bölger

Bölger has extensive global managerial experience in supply, procurement and operational positions. Before joining Marel, he was Vice President of Operations and Procurement at Bang & Olufsen in Denmark. Bölger held various management positions at Philips and Siemens-VDO in Asia, Central Europe and Western Europe.

**Education**
MS, Mechanical Engineering, Delft University of Technology.
CPIM, American Production and Inventory Control Society (APICS).

**Holdings in Marel**
17,862

## Executive Vice President of Innovation

### Vidar Erlingsson

Erlingsson took up his current post in 2014. He has been with the Marel innovation team since 2000 and has held various positions within the company. In 2010, he became the Product Center Inspection leader. Erlingsson has been instrumental in developing new technology within Marel and bringing it to commercial success.

**Education**
MS, Engineering, DTU in Denmark.
BS, Electrical and Computer Engineering, University of Iceland.

**Holdings in Marel**
65,000

## Executive Vice President of Commercial

### Petur Gudjonsson

Gudjonsson has decades of experience in the industrial sector. He took up his current position in 2016. He joined Marel in 1984 as a programmer for electronic design and has taken on numerous different roles at the company over the years. He was Managing Director of Sales and Service Offices, Sales Director for Marel Iceland and Denmark and General Manager of Marel Canada.

**Education**
BS, Electrical Engineering, University of Iceland.

**Holdings in Marel**
219,430

## Managing director (EVP) of marel further processing

### Jesper Hjortshøj

Hjortshøj joined the Executive Team in February 2017. He has been with Marel since 2006. Hjortshøj has extensive experience in the food industry and has held several different positions within the company. He served as manager in Marketing, Product Center and Strategy and Portfolio for Global Innovation.

**Education**
MBA, Aarhus University.
MA, Communication and Media Studies, Aarhus University.

**Holdings in Marel**
0

## Chief financial officer

### Linda Jonsdottir

Jonsdottir has served as Marel's CFO since 2014. Before that, she was Marel's Corporate Director of Treasury and Investor Relations. Prior to joining Marel, Jonsdottir worked in treasury and financing for Eimskip, Burdaras and Straumur Investment Bank. She was a board member of the Icelandic Enterprise Investment Fund from 2010 till 2015.

**Education**
MS, Finance, Reykjavik University.
Cand. oecon., Business Administration, University of Iceland.

**Holdings in Marel**
158,500

## Executive vice president of human resources

### David Freyr Oddsson

Oddsson took on his current role in 2013. He joined Marel in 2011 as HR Director of the International Sales and Service Network. Before joining Marel, Oddsson was Global Head of Human Resources and Corporate Services at Straumur Investment Bank from 2006 till 2011. Prior to that, he spent seven years as an HR consultant at Capacent.

**Education**
MBA, Reykjavik University.
Cand. Theologius, University of Iceland.

**Holdings in Marel**
135,000

## Managing director (EVP) of Marel Fish

### Sigurdur Olason

Olason started in his current position in 2014. He has extensive, international experience within the seafood industry. Olason worked in product development at Marel from 2001 until 2006, when he became Director of Business Development at Samherji, one of Iceland's leading seafood companies. He rejoined Marel in 2014.

**Education**
MBA, Brisbane Graduate School of Business.
BS, Computer Science, University of Iceland.
BS, Mechanical Industrial Engineering, University of Iceland.

**Holdings in Marel**
0

## Executive vice president of strategy and corporate development

### Arni Sigurdsson

Sigurdsson has extensive experience in the finance and investment management industry. Before joining Marel in 2014, he was an associate at AGC Partners investment bank. Prior to that, he worked at the commercial bank Landsbanki Íslands, where he was instrumental in advising Marel on the acquisition of Stork Food Systems.

**Education**

MBA, Harvard Business School.
BS, Industrial Engineering, University of Iceland.

**Holdings in Marel**

100,000

## Managing director (EVP) of Marel Poultry

### Anton De Weerd

De Weerd took up his current post in 2007. He has decades of experience in the poultry industry, having been with Marel and its predecessors since 1982. During his time at Marel he has served in various sales and marketing positions, including as Commercial Director, Managing Director and as President.

**Education**

BS, Mechanical Engineering, Avans University.

**Holdings in Marel**

15,000

## Managing director (EVP) of Marel Further Processing

### David Wilson

Wilson took up his current position in 2012. He has decades of experience in the food industry and has been with Marel and its predecessors since 1998. Wilson was Senior Vice-President for the Marel Poultry Industry Center in Gainesville, U.S. until 2012. Prior to that he served as Vice President of Sales and Marketing and as a Regional Sales Manager.

**Education**

MS, Animal Science, Aberdeen University.
BS (Hons), Agricultural and Business Management, Aberdeen University.

**Holdings in Marel**

27,300

ALL HOLDINGS AS OF DECEMBER 31, 2017

## ORGANIZATIONAL CHART

**To further align execution with strategy, Marel's organizational structure was simplified in 2014. The new organizational structure supports our goal of becoming a simpler, smarter and faster company.**

In the new structure, the poultry, fish, and meat industries will remain the three pillars of the company. These three industries are then supported by the company's global divisions: Innovation, Commercial and Supply Chain. The aim is to serve the customer better, reduce time to market and penetrate markets faster and more efficiently.


# RISK MANAGEMENT

**Effective risk management is the key to Marel's sustainability and underpins the company's long term relationship with its customers and other stakeholders. All risk management within the company is implemented through, and approved by, the Board of Directors.**

As part of the steady expansion of its enterprise risk management process, Marel has launched a number of initiatives throughout the company. Each initiative will contribute to achieving the company's objectives with regard to efficacy and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

## Risk appetite

All business operations involve risk. Risk appetite expresses the aggregate level of risk that Marel is willing to assume in order to achieve its business objectives, as defined by a set of minimum quantitative metrics and qualitative statements.

The Board of Directors approves the risk appetite and reviews this on an annual basis, or more frequently in the event of unexpected changes to the risk environment, to ensure it remains consistent with Marel's strategy, business and regulatory environment and stakeholder requirements. Reports relating to our risk profile and risk appetite are presented regularly to the Board of Directors.

## Risk management process

Marel has a vigorous risk management process which consists of 5 steps:

Risk appetite sets out the amount of risk the company is willing to accept in pursuit of value.

Risk assessment involves mechanisms for identification of risks, e.g. a brainstorming session to assess risk and controls. Risks are ranked by the likelihood of their occurrence and magnitude of their impact in a self-assessment document.

Risk treatment is the process of selecting and implementing measures to minimize the probability of identified risks materialising and alleviate their potential effects.

Monitoring is done through dashboard reporting and updating of the self-assessment document.

Communication of priority risks to the Board is made via a designated dashboard. Predetermined parameters are measured against the risk appetite to give a clear visual overview.

## Risk categories

Marel's activities expose the company to a variety of risks, which are categorized in four categories: Strategic, Operational, Financial Reporting and Compliance.


Each category has sub-categories that can be defined broadly as follows:

| | |
|---|---|
| STRATEGIC RISK | Risks that affect Marel's strategic ambitions, including economic and political developments |
| BUSINESS RISK | Risk related to customers, competition, government policy etc. |
| REPUTATIONAL RISK | Risk of damage to Marel's brand and reputation, resulting from actions that could be perceived as inappropriate, unethical or inconsistent with Marel's values |
| OPERATIONAL RISK | Risk related to inadequate internal processes, people and systems |
| FINANCIAL REPORTING RISK | Risk related to treasury and accounting, including finance, market and credit risk |
| MARKET RISK | Risk related to financial markets, including FX and interest rate risks |
| CREDIT RISK | Risks that relates to credit quality of our customers and other business partners |
| COMPLIANCE RISK | Risk arising from failure to comply with laws and regulations, including internal standards and policies |

Marel's risk management has focused especially on financial risks (including market and credit risk), which are managed by the Treasury department.

## Market risk

**Foreign exchange risk**

As an international company, Marel is exposed to foreign exchange risk arising from various currency movements, primarily with respect to EUR/USD on revenues and EUR/ISK on the cost side. The general policy is to take advantage of natural currency hedges by matching revenues and operational costs as economically possible.

The company's funding is denominated in its main operational currencies to create natural hedging in the balance sheet. Where necessary, financial exposure is hedged in accordance with Marel's general policy on permitted instruments and exposure limits.

## Cash flow and fair-value

**Interest rate risk**

The company's income and operating cash flows are substantially independent of changes in market interest rates. The interest rates of financial leases, to which the company is lessor or lessee, are fixed at their inception. These leases expose the company to fair-value interest rate risk. The company reports separately an embedded 0% floor in its long-term EUR borrowing. The valuation of this embedded derivative is dependent on market interest and is reported in the income statement. The company's cash-flow interest rate risk arises from long-term borrowings.

Borrowings issued at variable rates expose the company to cash-flow interest rate risk, while borrowings issued at fixed rates expose it to fair-value interest rate risk. Marel 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 floating rate financing to fixed rates. The company raises long-term borrowings at floating rates and swaps a portion of them into fixed rates. The risk involved, measured as the potential increase in interest paid during the coming year based on a defined movement in interest rates, is monitored and evaluated regularly.

## Credit risk

Marel minimizes credit risk by monitoring credit granted to customers and by obtaining security to cover potential losses. The company has policies in place to ensure that sales of products and services are made to customers with an acceptable credit history and that products are not delivered until payments are secured.

Marel does its banking with a diversified set of financial institutions around the world. Policies are in place to limit the amount of credit exposure to any one financial institution.

## Liquidity risk

Due to the dynamic nature of its underlying businesses, the company has prudent liquidity risk management to ensure sufficient flexibility of funding under the revolving part of facilities agreements and by maintaining sufficient current financial assets.

## Insurance policies

The company maintains both global and local insurance policies. Coverage includes property damage, business interruption, general and product liability, marine cargo/mounting, directors' and officers' liability, employers' practice liability, business travel, and accidents. The company believes its current insurance coverage to be adequate.


# CONSOLIDATED FINANCIAL STATEMENTS

## The Board of Directors' and CEO's Report

Marel is a leading global provider of advanced equipment, systems and services for the Poultry, Meat and Fish industries. Marel has offices and subsidiaries in over 30 countries and a global network of more than 100 agents and distributors.

The Consolidated Financial Statements for the year 2017 comprise the financial statements of Marel hf. ("the Company") and its subsidiaries (together "the Group" or "Marel"). The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and additional Icelandic disclosure requirements.

### Operations in 2017

The consolidated revenues for Marel for the full year 2017 are EUR 1,038.2 million (2016: EUR 969.7 million). The adjusted result from operations for the same period is EUR 157.4 million or 15.2% of revenues (2016: EUR 139.4 million or 14.4% of revenues).

The bridge between adjusted result from operations and result from operations as shown in the Consolidated Statement of Income is as follows:

| | 2017 | 2016 |
|---|---|---|
| Adjusted result from operations | 157.4 | 139.4 |
| Adjustment amortization of acquisition-related (in)tangible assets | (17.1) | (24.6) |
| Result from operations | 140.3 | 114.8 |

The pro forma revenues for Marel, including MPS Holding III B.V. ("MPS"), are EUR 983.0 million for 2016. The pro forma adjusted result from operations for the same period is EUR 143.5 million or 14.6% of revenues.

According to the Consolidated Statement of Financial Position, the Company's assets amounted to EUR 1,440.6 million at the end of 2017 (2016: EUR 1,392.4 million). Total equity amounted to EUR 541.9 million at the end of 2017 (at year-end 2016: EUR 525.6 million) or 37.6% of total assets (at year-end 2016: 37.7%). Net interest bearing debt decreased from EUR 403.6 million at the end of 2016 to EUR 365.0 million at the end of 2017.

On 31 August 2017, Marel closed an agreement to acquire 100% of the shares of Sulmaq Industrial e Comercial S.A. ("Sulmaq") from a consortium of shareholders.

On 29 January 2016 Marel concluded the acquisition of MPS and obtained control through acquiring 100% of the issued shares of MPS. MPS is a subsidiary of Marel Holding B.V.

The average number of full time employees was 4,912 in 2017 (2016: 4,599). Total salaries and wages were EUR 306.2 million (2016: EUR 284.4 million).

Based on the decision taken at the Company's 2017 Annual General Meeting, a dividend was declared and paid out to shareholders for the operational year 2016 amounting to EUR 15.3 million; EUR 2.14 cents per share, corresponding to approximately 20% of net result for the year (2016: a dividend of EUR 11.3 million; EUR 1.58 cents per share, was declared and paid out to shareholders for the operational year 2015).

The goodwill of the Group was tested for impairment at year-end by calculating its recoverable amount. The results of these impairment tests were that there was no impairment as the recoverable amount of the goodwill was well above book value.

In May 2017, Marel finalized an extension and amendment of its long term financing at favorable terms and conditions reflecting its financial strength and current market conditions. The all senior loan facilities are approximately EUR 640 million equivalents and include a EUR 325 million revolving credit facility, a EUR 243 million term loan as well as a USD 75 million term loan. The initial interest terms are EURIBOR/LIBOR +185 bps and will vary in line with Marel's leverage ratio (Net debt/EBITDA) at the end of each quarter. The final maturity is in May 2022. This provides Marel with increased strategic and operational flexibility to support the ambitious growth plan introduced at Marel's Annual General Meeting in March 2017.

At 31 December 2017 the Company's order book amounted to EUR 472 million (at 31 December 2016: EUR 350 million).

The management and the Board of Directors of the Group believe that they are taking all the necessary measures to support the sustainability and growth of the Group's business in the current environment. Accordingly they continue to adopt the going concern basis in preparing the Annual Report and Consolidated Financial Statements.

The management of the Company believes it is well placed to manage its business risks successfully based on the present economic outlook. Further information is disclosed in note 22 to the Consolidated Financial Statements.

## Share Capital and Articles of Association

At year-end Marel's issued shares totaled 735.6 million, all in one class, and unchanged from the end of 2016. Thereof Marel holds, at year-end 2017, 41.7 million treasury shares (2016: 21.5 million treasury shares). The number of shareholders at year-end 2017 was 2,206 compared to 1,907 at the end of 2016.

The ten biggest shareholders were:

| | | 2017 | | 2016 | |
|---|---|---|---|---|---|
| | | Number of shares million | % | Number of shares million | % |
| Eyrir Invest hf. | Investment company | 190.4 | 25.9% | 215.4 | 29.3% |
| Lífeyrissjóður verslunarmanna | Pension fund | 69.4 | 9.4% | 67.0 | 9.1% |
| LSR A/B/S-div. and nurses | Pension fund | 47.4 | 6.4% | 48.0 | 6.5% |
| Gildi - lífeyrissjóður | Pension fund | 47.0 | 6.4% | 51.3 | 7.0% |
| Birta lífeyrissjóður | Pension fund | 30.3 | 4.1% | 31.9 | 4.3% |
| MSD Partners Luxembourg S.á.r | Investment company | 24.6 | 3.3% | 0.0 | 0.0% |
| Stefnir - ÍS 15 | Asset management | 23.4 | 3.2% | 32.1 | 4.4% |
| Stefnir - ÍS 5 | Asset management | 15.2 | 2.1% | 20.1 | 2.7% |
| Stapi lífeyrissjóður | Pension fund | 14.5 | 2.0% | 17.3 | 2.4% |
| Landsbankinn hf. | Bank | 13.2 | 1.8% | 13.7 | 1.9% |
| | Top 10 total | **475.4** | **64.6%** | **496.8** | **67.5%** |
| | Others | 218.5 | 29.7% | 217.3 | 29.6% |
| Marel hf. | Treasury shares | 41.7 | 5.7% | 21.5 | 2.9% |
| | Total issued shares | **735.6** | **100.0%** | **735.6** | **100.0%** |

In 2017, Marel purchased 22.2 million treasury shares for a total amount of EUR 63.4 million. Thereof 19.7 million treasury shares were purchased to be used as a payment for potential future acquisitions and 2.5 million treasury shares were purchased to fulfill future stock options obligations.

Marel sold 0.9 million treasury shares for EUR 2.5 million to the management of Sulmaq in relation to Marel's acquisition of Sulmaq. The sold shares include a lock-up period of 18 months from the date of closing which was 31 August 2017. Marel also sold 1.1 million treasury shares for EUR 1.2 million in order to fulfill obligations of stock option agreements.

During the year 2016, Marel purchased 4.0 million shares for EUR 8.1 million to fulfill future stock option obligations and sold 2.6 million treasury shares for a total amount of EUR 2.7 million to fulfill the employees' stock option schedules. In connection with the acquisition of MPS, Marel sold 10.8 million treasury shares for EUR 16.3 million to the previous owners of MPS.

Stock options are granted to management and selected employees. Total granted and unexercised stock options at end of the year 2017 were 9.9 million shares (2016: 8.8 million shares), of which 1.7 million are exercisable at the end of 2017 (2016: 1.8 million) and the remainder will vest in the years 2018 to 2021. Further information is disclosed in note 18 to the Consolidated Financial Statements.

At the Company's 2014 Annual General Meeting, the shareholders authorized the Board of Directors to increase the Company's share capital by 35 million shares to fulfill stock option agreements. No new shares were issued in 2017 (2016: no new shares issued). This authorization applies for five years from its adoption.

The Board of Directors will propose at the 2018 Annual General Meeting that EUR cents 4.19 dividend per outstanding share will be paid for the operational year 2017, corresponding to approximately EUR 29.0 million or 30% of net result attributable to Shareholders of the Company of EUR 96.8 million for the year 2017, and refers to the Consolidated Financial Statements regarding appropriation of the profit for the year and changes in Shareholders' equity. This is proposed in accordance to Marel's dividend policy, disclosed at Marel's Annual General Meeting in March 2011. The target is that the net debt/EBITDA ratio is 2 - 3 times EBITDA, excess capital to be used to stimulate growth and value creation as well as paying dividend and that dividend or share buy-back is targeted at 20-40% of the net result.

## Corporate Responsibility Statement

### Corporate Governance

The framework for the Company's Corporate Governance practices consists of the provisions of the law and regulations, the Company's Articles of Association and the Icelandic Guidelines on Corporate Governance issued in June 2015 by the Iceland Chamber of Commerce, NASDAQ Iceland and SA - Confederation of Icelandic Employers. In compliance with the guidelines, the Board of Directors has prepared a Corporate Governance Statement.

The Board of Directors is comprised of 3 female Directors and 4 male Directors, which is in accordance with the statutory gender ratio of Boards of Directors of Public Limited Companies in Iceland, with more than 50 employees (ratio of each gender shall be no less than 40%).

Candidates for the Board of Directors of the Company have to notify the Board of Directors thereof in writing at least five full days before the beginning of the Annual General Meeting. The Company's Articles of Association can only be amended with the approval of 2/3 of casted votes and approval of shareholders who control at least 2/3 of the shares represented in a legal shareholders' meeting, provided that the notification calling the meeting thoroughly informs on such amendment.

### Non-financial information

The Corporate Social Responsibility Principles, addressing environmental, social and ethical matters, can be summarized as follows:

Social Responsibility
Marel provides a safe and healthy working environment and equal opportunities. It fosters individual and team development and ensures the right to freedom of association for all its employees. Human rights violations, illegal labor conditions and illegal and unethical business behavior are never tolerated. Marel engages with local communities, where innovation and education serve as the main areas of social participation.

Environmental Responsibility
Marel encourages efficient use of resources in its value chain and promotes positive environmental impact and environmental protection. Innovation is continuously creating new methods for improving yields and minimizing waste in food production, reducing the use of scarce resources such as energy and water, and promoting food safety and animal welfare.

Economical Responsibility
Marel promotes long term value creation, fair trade and good business practices in its value chain through transparency, innovation and collaboration with all its partners.

Our guidance policy on corporate responsibility implements the ISO 26000 standards, and we are signatory to the United Nations Global Compact.

In 2017, we took part in the NASDAQ sustainable markets initiative for the first time, which makes use of NASDAQ's ESG reporting guidelines.

The Corporate Responsibility Statement is explained and discussed in more detail in a separate document distributed with the Consolidated Financial Statements as well as included in the Annual Report 2017.

## Statement by the Board of Directors and the CEO

According to the Board of Directors' and CEO's best knowledge these Consolidated Financial Statements comply with International Financial Reporting Standards as adopted by the European Union and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. Further according to the Board of Directors' and CEO's best knowledge, the statements give a true and fair view of the Group's financial position as at 31 December 2017, operating performance and the cash flows for the year ended 31 December 2017 as well as describe the principal risk and uncertainty factors faced by the Group.

The report of the Board of Directors and CEO provides a clear overview of developments and achievements in the Group's operations and its situation.

The Board of Directors and CEO of Marel hf. hereby ratify the Consolidated Financial Statements of Marel hf. for the year 2017 with their signatures.

Garðabær, 7 February 2018

**Board of Directors**

Ásthildur Margrét Otharsdóttir
Chairman of the Board

Arnar Þór Másson

Ann Elizabeth Savage

Ástvaldur Jóhannsson

Helgi Magnússon

Margrét Jónsdóttir

Ólafur S. Guðmundsson

**Chief Executive Officer**

Árni Oddur Þórðarson

Consolidated Financial Statements 2017

# Independent Auditor's report

To the Board of Directors and Shareholders of Marel hf.

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the Consolidated Financial Statements of Marel hf. ("the Group"), which comprise the Consolidated Statement of Financial Position as at 31 December 2017, the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and Notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of ethics for Icelandic auditors, which are based on the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have also fulfilled other ethical requirements of that rules. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matters | How the matter was addressed in our audit |
|---|---|
| **Goodwill**<br>Goodwill amounts to EUR 644m and represents 45% of total assets as at 31 December 2017.<br><br>The book value of the Group's goodwill results from acquisitions in past years and in the current year. Impairment of goodwill is a key audit matter due to the high level of judgment required in assessing the inputs into a valuation model supporting management's assessment of impairment.<br><br>The most significant judgment incorporated in management's assessment of impairment include forecasted cash flows, weighted average cost of capital and the assumptions underlying forecasted growth. | We challenged the cash flow projections included in the annual goodwill impairment tests.<br><br>For our audit we critically assessed and tested the assumptions, methodologies, the weighted average cost of capital and other data used, for example by comparing them to external and historical data, such as external market growth expectations and by analyzing sensitivities in Marel's valuation model.<br><br>We included valuation specialists in our team to assist us with these procedures.<br><br>We specifically focused on the sensitivity in the available headroom for the cash generating units, evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount and assessed the historical accuracy of management's estimates.<br>We also assessed the adequacy of the disclosures in note 13 to the Consolidated Financial Statements. |

Consolidated Financial Statements 2017

| Key Audit Matters | How the matter was addressed in our audit |
|---|---|
| **Revenue recognition**<br>Recognition of the Group's revenue is complex due to several types of customer contracts utilized, including sale of equipment, standard and customized, service contracts and sale of spare parts.<br><br>Revenue recognition for production contracts is based on 'percentage of completion' method.<br><br>The assessment of the stage of the contract is made by reference to the proportion of contract cost incurred for the work performed to the reporting date relative to the estimated total contract costs to completion.<br><br>The recognition of revenue therefore relies on estimates in relation to the final outcome of expected costs on each contract, which are judgmental and could be susceptible to a material misstatement.<br><br>Revenue recognition is therefore a key audit matter.<br><br>Refer to note 2.5 and note 5. | We audited the accuracy of the revenue streams by testing on a sample basis the revenue amounts recorded in the general ledger against the underlying contracts and orders, invoices, payments and if relevant proofs of delivery.<br><br>We performed margin analysis and compared current year margins with previous year and budget.<br><br>We tested credit notes issued after year-end to verify that revenue were not reversed after year-end.<br><br>We performed a cut-off test per year-end.<br><br>We performed a test of details on per year-end open equipment projects. We selected projects based on size and risk assessment. We vouched the selected items to contracts, precalculations, invoices and payments.<br><br>We challenged the progress of per year-end open equipment projects and verified that the percentage of completion revenues are accurate.<br><br>We considered specific revenue journal entries in the context of journal entries testing, eg. regarding manual entries on revenues.<br><br>We assessed whether the accounting policies for revenue recognition and other financial statements disclosures were in accordance with International Financial Reporting Standards as adopted by the EU. |

### Other information

The Board of Directors and CEO are responsible for the other information. The other information comprises the information included in the Annual Report of the Group, but does not include the Consolidated Financial Statements and our auditor's report thereon. Our opinion on the Consolidated Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. The annual report is not available at our reporting date but is expected to be made available to us after that date.

### Responsibilities of the Board of Directors and CEO for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with IFRSs as adopted by the EU, and for such internal control as they determine is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Board of Directors and CEO are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and CEO are responsible for overseeing the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or

conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other Legal and Regulatory Requirements

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors and CEO accompanying the Consolidated Financial Statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the Consolidated Financial Statements.

The engagement partners on the audit resulting in this independent auditor's report are Sæmundur Valdimarsson and Hrafnhildur Helgadóttir.

Reykjavik, 7 February 2018

**KPMG ehf.**

Sæmundur Valdimarsson     Hrafnhildur Helgadóttir

## Consolidated Statement of Income

| In EUR million unless stated otherwise | Notes | 2017 | 2016 |
|---|---|---|---|
| Revenues | 5 | 1,038.2 | 969.7 |
| Cost of sales | 6 | (631.5) | (572.7) |
| **Gross profit** | | **406.7** | **397.0** |
| Selling and marketing expenses | 6 | (120.5) | (128.5) |
| Research and development expenses | 6 | (57.8) | (63.1) |
| General and administrative expenses | 6 | (71.0) | (66.2) |
| Other operating income | 6 | - | 0.2 |
| **Adjusted result from operations*)** | 6 | **157.4** | **139.4** |
| Amortization of acquisition-related (in)tangible assets | 4 | (17.1) | (24.6) |
| **Result from operations** | | **140.3** | **114.8** |
| Finance costs | 7 | (21.2) | (26.0) |
| Finance income | 7 | 0.9 | 0.6 |
| Net finance costs | 7 | (20.3) | (25.4) |
| **Result before income tax** | | **120.0** | **89.4** |
| Income tax | 10 | (23.1) | (13.6) |
| **Net result** | | **96.9** | **75.8** |
| Of which: | | | |
| - Net result attributable to non-controlling interests | 18 | 0.1 | 0.1 |
| - Net result attributable to Shareholders of the Company | 11 | 96.8 | 75.7 |
| **Earnings per share for result attributable to Shareholders of the Company during the period (expressed in EUR cent per share):** | | | |
| - basic | 11 | 13.70 | 10.59 |
| - diluted | 11 | 13.63 | 10.54 |

*) Adjusted result from operations: result has been adjusted for amortization of acquisition-related (in)tangible assets.

The notes on pages 14-65 are an integral part of the Consolidated Financial Statements.

Consolidated Financial Statements 2017

## Consolidated Statement of Comprehensive Income

| In EUR million | Notes | 2017 | 2016 |
|---|---|---|---|
| Net Result | | **96.9** | **75.8** |
| **Items that are or will be reclassified to profit or loss:** | | | |
| Currency translation differences | 18 | (7.5) | 1.3 |
| Cash flow hedges | 18 | 1.8 | 2.0 |
| Income tax relating to cash flow hedges | 15 18 | (0.4) | (0.3) |
| Other comprehensive income / (loss) for the period, net of tax | | (6.1) | 3.0 |
| **Total comprehensive income for the period** | | **90.8** | **78.8** |
| Of which: | | | |
| Comprehensive income attributable to non-controlling interests | 18 | 0.1 | 0.1 |
| Comprehensive income attributable to Shareholders of the Company | | 90.7 | 78.8 |

The notes on pages 14-65 are an integral part of the Consolidated Financial Statements.

# Consolidated Statement of Financial Position

| In EUR million | Notes | 2017 | 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment | 12 | 144.7 | 119.0 |
| Goodwill | 13 | 643.9 | 635.2 |
| Intangible assets (excluding goodwill) | 13 | 262.7 | 277.5 |
| Trade and other receivables | 14 | 4.0 | 0.2 |
| Derivative financial instruments | 22 | 0.9 | 0.4 |
| Deferred income tax assets | 15 | 4.4 | 7.3 |
| **Non-current assets** | | **1,060.6** | **1,039.6** |
| Inventories | 16 | 124.4 | 122.2 |
| Production contracts | 17 | 48.2 | 37.0 |
| Trade receivables | 14 | 128.9 | 115.3 |
| Other receivables and prepayments | 14 | 46.6 | 32.7 |
| Derivative financial instruments | 22 | - | 0.1 |
| Cash and cash equivalents | | 31.9 | 45.5 |
| **Current assets** | | **380.0** | **352.8** |
| **TOTAL ASSETS** | | **1,440.6** | **1,392.4** |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | 18 | 6.3 | 6.5 |
| Share premium reserve | 18 | 229.6 | 288.7 |
| Other reserves | 18 | (8.2) | (2.1) |
| Retained earnings | 18 | 313.9 | 232.3 |
| **Shareholders' equity** | | **541.6** | **525.4** |
| Non-controlling interests | 18 | 0.3 | 0.2 |
| **Total equity** | | **541.9** | **525.6** |
| **LIABILITIES** | | | |
| Borrowings | 19 | 370.7 | 425.0 |
| Deferred income tax liabilities | 15 | 61.3 | 63.5 |
| Provisions | 20 | 8.6 | 7.4 |
| Other liabilities | 23 | 3.6 | - |
| Derivative financial instruments | 22 | 2.7 | 4.9 |
| **Non-current liabilities** | | **446.9** | **500.8** |
| Production contracts | 17 | 209.6 | 150.8 |
| Trade and other payables | 23 | 195.9 | 168.9 |
| Current income tax liabilities | | 11.0 | 9.1 |
| Borrowings | 19 | 26.2 | 24.1 |
| Provisions | 20 | 9.1 | 13.1 |
| **Current liabilities** | | **451.8** | **366.0** |
| **Total liabilities** | | **898.7** | **866.8** |
| **TOTAL EQUITY AND LIABILITIES** | | **1,440.6** | **1,392.4** |

The notes on pages 14-65 are an integral part of the Consolidated Financial Statements.

Consolidated Financial Statements 2017

## Consolidated Statement of Changes in Equity

| In EUR million | Share capital | Share premium reserve [2] | Other reserves [3] | Retained earnings | Share-holders' equity | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | **6.5** | **288.7** | **(2.1)** | **232.2** | **525.3** | **0.2** | **525.5** |
| Result for the period | | | | 96.8 | 96.8 | 0.1 | 96.9 |
| Total other comprehensive income | | | (6.1) | | (6.1) | | (6.1) |
| *Transactions with owners of the Company* | | | | | | | |
| Treasury shares purchased | (0.2) | (63.2) | | | (63.4) | | (63.4) |
| Treasury shares sold | 0.0 | 3.7 | | | 3.7 | | 3.7 |
| Treasury shares, transaction costs | | (0.1) | | | (0.1) | | (0.1) |
| Value of services provided | | 0.6 | | | 0.6 | | 0.6 |
| Value of services provided released | | (0.1) | | 0.1 | 0.0 | | 0.0 |
| Dividend | | | | (15.3) | (15.3) | 0.0 | (15.3) |
| | **(0.2)** | **(59.1)** | **(6.1)** | **81.6** | **16.3** | **0.1** | **16.4** |
| **Balance at 31 December 2017** | **6.3** | **229.6** | **(8.2)** | **313.9** | **541.6** | **0.3** | **541.9** |

| In EUR million | Share capital | Share premium reserve [2] | Other reserves [3] | Retained earnings | Share-holders' equity | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2016** | **6.4** | **277.9** | **(5.1)** | **167.5** | **446.7** | | **446.7** |
| Result for the period | | | | 75.7 | 75.7 | 0.1 | 75.8 |
| Total other comprehensive income [1] | | | 3.0 | | 3.0 | | 3.0 |
| Business combinations, note 4 | | | | | | 0.1 | 0.1 |
| *Transactions with owners of the Company* | | | | | | | |
| Treasury shares purchased | 0.0 | (8.0) | | | (8.0) | | (8.0) |
| Treasury shares sold | 0.1 | 18.8 | | | 18.9 | | 18.9 |
| Treasury shares, transaction costs | | (0.0) | | | (0.0) | | (0.0) |
| Value of services provided | | 0.3 | | | 0.3 | | 0.3 |
| Value of services provided released | | (0.3) | | 0.3 | - | | - |
| Dividend | | | | (11.3) | (11.3) | | (11.3) |
| | **0.1** | **10.8** | **3.0** | **64.7** | **78.6** | **0.2** | **78.8** |
| **Balance at 31 December 2016** | **6.5** | **288.7** | **(2.1)** | **232.2** | **525.3** | **0.2** | **525.5** |

[1] Includes recognition of non-controlling interest.
[2] Includes reserve for share based payments as per 31 December 2017 of EUR 1.4 million (31 December 2016: EUR 0.8 million).
[3] For details on Other reserves refer to note 18.

The notes on pages 14-65 are an integral part of the Consolidated Financial Statements.

# Consolidated Statement of Cash Flows

| In EUR million | Notes | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Result from operations** | | **140.3** | **114.8** |
| *Adjustments to reconcile result from operations to net cash provided by / (used in) operating activities:* | | | |
| Depreciation of property, plant and equipment | 12 | 11.9 | 9.8 |
| Amortization and impairment of intangible assets | 13 | 39.7 | 50.9 |
| Changes in non-current receivables and payables | | 0.9 | 0.2 |
| **Working capital provided by / (used in) operating activities** | | **192.8** | **175.7** |
| *Changes in working capital:* | | | |
| Inventories and production contracts | | 44.1 | 3.8 |
| Trade and other receivables | | (26.5) | 2.2 |
| Trade and other payables | | 25.6 | 2.5 |
| Provisions | | 0.2 | (5.2) |
| **Changes in operating assets and liabilities** | | **43.4** | **3.3** |
| **Cash generated from operating activities** | | **236.2** | **179.0** |
| Taxes paid | | (26.2) | (8.1) |
| Interest and finance income | | 0.8 | 0.8 |
| Interest and finance costs | | (15.2) | (34.6) |
| **Net cash from operating activities** | | **195.6** | **137.1** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 12 | (34.0) | (21.0) |
| Investments in intangibles | 13 | (23.9) | (23.2) |
| Proceeds from sale of property, plant and equipment | | 0.4 | 4.5 |
| Acquisition of subsidiary, net of cash aquired | 4 | (20.2) | (368.4) |
| **Net cash provided by / (used in) investing activities** | | **(77.7)** | **(408.1)** |
| **Cash flows from financing activities** | | | |
| Purchase of treasury shares | | (63.4) | (8.0) |
| Sale of treasury shares | | 3.7 | 19.0 |
| Proceeds from borrowings | | 130.0 | 365.3 |
| Repayments of borrowings | | (177.2) | (144.6) |
| Dividends paid | 18 | (15.3) | (11.3) |
| **Net cash provided by / (used in) financing activities** | | **(122.2)** | **220.4** |
| **Net increase (decrease) in net cash** | | **(4.3)** | **(50.6)** |
| Exchange (loss) / gain on net cash | | (9.3) | 3.1 |
| Net cash at beginning of the period | | 45.5 | 93.0 |
| **Net cash at end of the period** | | **31.9** | **45.5** |

The notes on pages 14-65 are an integral part of the Consolidated Financial Statements.

Consolidated Financial Statements 2017

# Notes to the Consolidated Financial Statements

## 1 General information

### 1.1 Reporting entity

Marel hf. ("the Company") is a limited liability company incorporated and domiciled in Iceland. The address of its registered office is Austurhraun 9, Gardabaer.

The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as "the Group" or "Marel”).

The Group is a leading global provider of advanced equipment, systems and services for the Poultry, Meat and Fish industries and is involved in the manufacturing, development, distribution and sales of solutions for these industries.

All amounts are in millions of EUR unless otherwise stated.

These Consolidated Financial Statements have been approved for issue by the Board of Directors and CEO on 7 February 2018. These Consolidated Financial Statements as presented in this report are subject to the adoption by the Annual General Meeting of Shareholders, to be held on 6 March 2018.

The Company is listed on the Nasdaq OMX Nordic Iceland exchange.

### 1.2 Basis of Accounting

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”) and additional Icelandic disclosure requirements for consolidated financial information of listed companies in accordance with Icelandic Financial Statements Act No. 3/2006 and rules for issuers of financial instruments at the Nasdaq in Iceland. The accounting policies applied by Marel comply with IFRS and the pronouncements of the International Financial Reporting Interpretation Committee (’’IFRIC’’) effective at 31 December 2017.

These Consolidated Financial Statements have been prepared under the historical cost convention, except for the valuation of available-for-sale financial assets and financial assets and liabilities (including derivative instruments) which are valued at fair value through the Consolidated Statement of Comprehensive Income.

Details of the Group’s significant accounting policies are included in note 2.

### 1.3 Functional and presentation currency and exchange rates

Items included in the Consolidated 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 Euro (’’EUR’’), which is the Group's reporting currency and the functional currency of Marel hf. All financial information presented in EUR has been rounded to the nearest million, unless otherwise indicated.

Exchange rates
The currency exchange rates that were used in preparing the Consolidated Statements are listed below for the most relevant currencies.

| 1 euro = | Year-end rate 2017 | Average rate 2017 | Year-end rate 2016 | Average rate 2016 |
|---|---|---|---|---|
| USD | 1.19 | 1.13 | 1.05 | 1.11 |
| ISK | 125.03 | 120.68 | 119.38 | 134.49 |

### 1.4 Use of estimates and judgements

The preparation of the Consolidated Financial Statements in accordance with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in note 3. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

A number of the Group’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values.

Further information about the assumptions made in measuring fair values is included in notes 2.13 and 22.

## 2 Summary of significant accounting policies

### 2.1 General

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below.

**Changes in accounting policies**
The accounting policies set out in this section have been applied consistently for all periods presented in these Consolidated Financial Statements.

**Prior-year information**
The presentation of prior-year disclosures is in line with the current year disclosures.

**Specific choices with IFRS**
Sometimes IFRS allows alternative accounting treatment for measurement and / or disclosure. The most important of these alternative treatments are mentioned below:

Tangible and intangible fixed assets
Under IFRS an entity shall disclose either the cost model or the revaluation model as its accounting for tangible and intangible fixed assets. In this respect, Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if applicable. The useful lives and residual values are evaluated annually. The Company chose to apply the cost model meaning that costs relating to product development, the development and purchase of software for internal use and other intangible assets are capitalized and subsequently amortized over their estimated useful life.

Presentation of Consolidated Statement of Income
Marel presents expenses in the Consolidated Statement of Income in accordance with their function. This allows the presentation of gross profit on the face of the Consolidated Statement of Income, which is a widely used performance measure in the industry. The composition of the costs allocated to the individual functions is explained as follows:

- Cost of sales encompasses all manufacturing costs (including raw materials, employee benefits, and depreciation and amortization) related to goods and services captured in net sales. They are measured at their actual cost based on "first in, first out" or weighted average cost;
- Selling and marketing expenses relate to the selling and marketing of goods and services;
- Research and development expenses consist of:
  - research, which is defined as original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding; and,
  - development, which is defined as the application of research findings or other knowledge to a plan or (re-)design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use;
- General and administrative expenses relate to the strategic and governance role of the general management of the Company as well as the representation of Marel as a whole in the financial, political or business community. General and administrative expenses also relate to business support activities of staff departments that are not directly related to the other functional areas.

Presentation of Consolidated Statement of Cash Flows
Under IFRS, an entity shall report cash flows from operating activities using either the direct method (whereby major classes of gross cash receipts and gross cash payments are disclosed) or the indirect method (whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows). In this respect, the Company chose to prepare the Consolidated Statement of Cash Flows using the indirect method.

### 2.2 Consolidation

**Business combinations**
The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired.

Acquisitions by Marel as part of business combinations will result in recognition of goodwill and other intangible assets. The amounts assigned to the acquired assets and liabilities are based on assumptions and estimates about their fair values. In making these estimates, management consulted independent, qualified appraisers if appropriate. A change in assumptions and estimates could change the values allocated to certain assets and their estimated useful lives, which could affect the amount or timing of charges to the Consolidated Statement of Income, such as amortization of intangible assets.

Any goodwill that arises is tested annually for impairment. Any gain on a purchase is recognized in the Consolidated Statement of Income immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the Consolidated Statement of Income.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as Equity, then it is not re-measured and settlement is accounted for within Equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in the Consolidated Statement of Comprehensive Income.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's award), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combinations. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

Details of the acquisition of Sulmaq Industrial e Comercial S.A. and of MPS Holding III B.V are disclosed in note 4.

### Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date on which control ceases.

### Non-Controlling Interests

Non-Controlling Interests ("NCI") are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

### Loss of control

When the Group loses control over a subsidiary, it de-recognizes the assets and liabilities of the subsidiary, and any non-controlling interests and other components of Equity. Any resulting gain or loss is recognized in the Consolidated Statement of Income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

### Transactions eliminated on consolidation

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized 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.

### Transactions and Non-Controlling Interests

Transactions that result in changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders.

As a result, no gain or loss on such changes is recognized in the Consolidated Statement of Income but rather in Equity. Furthermore, no change in the carrying amounts of assets (including goodwill) or liabilities is recognized as a result of such transactions. This approach is consistent with NCI being a component of Equity.

### Associates

Associates are all entities over which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the Consolidated Financial Statements include the Group's share of the profit or loss and Other Comprehensive Income ("OCI") of equity-accounted investees, until the date on which significant influence or joint control ceases.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized 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.

Dilution gains and losses arising in investments in associates are recognized in the Consolidated Statement of Income as part of Other results relating to investments in associates.

## 2.3 Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Business activities reported in the core industries reflect the recurring operational activities of those segments. All operating segments' operating results are reviewed regularly by the Group's CEO and strategic decisions are based on these operating segments.

## 2.4 Foreign currency translation

### Transactions and balances

Foreign currency transactions are translated into the respective functional currencies of Group entities, and from there into the Group's reporting currency using the exchange rates prevailing at the dates of the transactions or valuation where items are revaluated.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Consolidated Statement of Income, except when deferred in Equity as permanent loan, as qualifying cash flow hedges and as qualifying net investment hedges as explained in note 2.14. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents as well as all other foreign exchange gains and losses are recognized immediately in the Consolidated Statement of Income within 'Finance income' or 'Finance costs'.

### 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:

- assets and liabilities presented are translated at the closing rate at the date of that Consolidated Statement of Financial Position;
- income and expenses for each Consolidated Statement of Income 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
- translation results of the consolidation of subsidiaries reporting in foreign currencies, as well as a currency revaluation related to financing of subsidiaries are recognized as a separate component of Equity (Translation reserve).

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are recognized in Other Comprehensive Income and accumulated in Translation reserve. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in Other Comprehensive Income are recognized in the Consolidated Statement of Income for the period as part of the gain or loss on sale.

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.

In case of a non-wholly-owned subsidiary, the relevant proportionate share of the translation difference is allocated to the Non-Controlling Interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the Translation reserve related to that foreign operation is reclassified to Consolidated Statement of Income as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to Non-Controlling Interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to Other Comprehensive Income.

## 2.5 Revenue recognition

Revenue comprises the fair value of the sale of goods and services net of value-added tax, rebates and discounts, after eliminating sales within the Group. Revenue from the sale of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met. The amount of revenue is considered to be “not reliably measurable” until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from fixed-price contracts for delivering designed services and solutions is recognized under the percentage of completion (“POC”) method. Under the POC method, revenue is generally recognized based on the services performed and direct expenses incurred to date as a percentage of the total services to be performed and total expenses to be incurred.

Interest income is recognized 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.

## 2.6 Production contracts

Production costs are recognized when incurred.

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

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

The Group uses the ‘percentage of completion method’ to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the reporting 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 recognized profits or less recognized 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 recognized profits or less recognized losses.

## 2.7 Leases

Leases of property, plant and equipment where the Group has substantially obtained all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized 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 borrowings. The interest element of the lease payment is charged to the Consolidated Statement of Income 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 and 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 Consolidated Statement of Income on a straight-line basis over the period of the lease.

In those cases where the Group is the lessor of a finance lease, the finance lease is recorded in the Consolidated Statement of Financial Position as a receivable, at an amount equal to the net investment in the lease. The Finance income is recorded in the Consolidated Statement of Income based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease. Assets held by the Group for operating leases are presented in the Consolidated Statement of Financial Position according to the nature of the asset. Operating lease income is recognized in the Consolidated Statement of Income over the lease term on a straight line basis.

## 2.8 Employee benefits

### Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (stock options) of the Group. The fair value of the employee services received in exchange for the grant of the stock options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the stock options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of stock options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At reporting date, the entity revises its estimates of the number of stock options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the Consolidated Statement of Income, with a corresponding adjustment to Equity. The proceeds received net of any directly attributable transaction costs are credited to Share capital (nominal value) and Share premium when the stock options are exercised. The fair value of the employee stock options granted is measured using the Black-Scholes formula.

Measurement inputs include share price on measurement date, exercise price of the stock options, expected volatility based on weighted average historic volatility adjusted for changes expected due to publicly available information, weighted average expected life of the instruments based on historical experience and general stock option holder behavior, expected dividends, and the risk-free interest rate based on government bonds. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

**Profit sharing and bonus plans**

Under some circumstances, a liability for key employee benefits in the form of profit sharing and bonus plans is recognized in other provisions when it is management intention to settle the liability and at least the condition is met that 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.

**Pension plans**

Marel has several pension plans in accordance with local rules and conditions. Based on IAS 19, Employee Benefits, only one arrangement with regards to early retirement rights can be classified as defined benefit pension plan until the moment of settlement expected in 2020 (VPL in the Netherlands). Two other defined benefit obligations refer to jubilee rights in the Netherlands and the postretirement medical benefit plan in the United States of America. Because of their non-material character, these arrangements are not disclosed separately.

For the majority of its employees, the Group has pension plans classified as defined contribution plans. Obligations relating to defined contribution pension plans are charged to the Consolidated Statement of Income as employee remuneration expenses when the contributions are payable. Contributions paid in advance are presented as assets to the extent that cash repayment or a reduction in future contributions is available.

## 2.9 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the Consolidated Statement of Income except to the extent that it relates to business combinations, or items recognized directly in Shareholders' equity or in Other Comprehensive Income. In case of recording directly in Shareholders’ equity, the tax on this item is included in deferred taxes; the net amount is recognized in Shareholders’ equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company’s subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements.

Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

Future taxable profits are determined based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

### 2.10 Property, plant and equipment

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

Subsequent expenditures are included in the asset's carrying amount or recognized 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. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the Consolidated Statement of Income in the period in which they are incurred.

Land is not depreciated. 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:

| | |
|---|---|
| Land and buildings | 30-50 years |
| Plant and machinery | 4-15 years |
| Vehicles and equipment | 3-7 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. Equipment included in rented buildings is depreciated over the remaining useful life of the related equipment or over the remaining rental period, whichever is shorter.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.
An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount (note 2.12).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are recognized within other operating income (expenses) in the Consolidated Statement of Income.

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 capitalized 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.

### 2.11 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 at the date of acquisition. Goodwill is measured 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 is allocated to Cash Generating Units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combinations in which the goodwill arose.

#### Technology, research and development

Technology has been acquired as part the acquisition of MPS in 2016 (refer to note 4). Technology costs have a finite useful life and are capitalized and amortized using the straight line method over the period of 20 years.

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognized as intangible assets when it is probable that the project will generate future economic benefits, considering its commercial and technological feasibility, costs can be measured reliably and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized as an expense as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Development costs that have a finite useful life and that have been capitalized are amortized 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.

**Customer relationships, patents & trade name**
Customer relationships have been acquired as part of the acquisition of MPS in 2016 and Sulmaq in 2017 and are capitalized and amortized using the straight line method over their useful life of 20 years.

Expenditure to acquire patents, trademarks and licenses is capitalized and amortized using the straight-line method over their useful lives, but not exceeding 8 years, or 11 years in case of trademarks.

**Other intangible assets**
Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be measured reliably.

Directly attributable costs capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overhead.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software development costs recognized as intangible assets are amortized over their estimated useful lives, which can vary from 3 to 5 years.

**General**
Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in the Consolidated Statement of Income as incurred.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets with an indefinite use or that are not depreciated are tested annually for impairment.

### 2.12 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Non-financial assets other than goodwill that suffer impairment are reviewed for possible reversal of the impairment at each reporting date. Assets held for sale which are valued at fair value, are reviewed at each reporting date.
At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from business combinations is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in the Consolidated Statement of Income. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### 2.13 Financial instruments

#### Financial instruments other than derivatives

The Group classifies its financial assets and liabilities in the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification at initial recognition.

#### Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in the Consolidated Statement of Income as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in the Consolidated Statement of Income. If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity.

#### Held-to-maturity financial assets

When the Group has the intent and ability to hold debt securities to maturity, then such financial assets are classified as held to maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available for sale, and prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years.

### Loans and receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's receivables comprise 'trade receivables' and 'cash and cash equivalents' in the Consolidated Statement of Financial Position and are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

### Cash and cash equivalents

Cash and cash equivalents can include cash on 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 Consolidated Statement of Financial Position.

### 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 recognized initially at fair value and included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Regular purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized 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.

### Fair value measurement

The fair values of quoted assets 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 fair value of investments 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 reporting date. Further information is included in note 22.

### Impairment of financial assets

The Group assesses at each reporting 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 as an indicator that 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 recognized in profit or loss – is removed from Equity and recognized in the Consolidated Statement of Comprehensive Income for the period. Impairment losses recognized in the Consolidated Statement of Comprehensive Income for the period on equity instruments are not reversed through the Consolidated Statement of Comprehensive Income for the period.

The carrying value less impairment provision of trade receivables is 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.

### Non-derivative financial liabilities

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

## 2.14 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently revaluated at their fair value. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risk of the host contract and the embedded derivative are not directly closely related.

The method of recognizing 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 a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or
- Hedges of a net investment in a foreign operation (net investment hedge); or
- Derivatives at fair value through profit or loss are accounted for at fair value through profit or loss.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going 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.

Movements on the hedge reserve in Equity are shown in the Consolidated Statement of Changes in Equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current asset or liabilities.

### (a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in Other Comprehensive Income and presented in the Hedge reserve in Equity. The profit or loss relating to the ineffective portion is recognized immediately in the Consolidated Statement of Income within Finance income or Finance costs.

Amounts accumulated in Equity are recycled in the Consolidated Statement of Income for the period in the periods when the hedged item affects profit or loss.

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or non-current assets) the gains and losses previously deferred in Equity are transferred from Equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in case of inventory or in depreciation in case of non-current assets.

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 recognized when the forecast transaction is ultimately recognized in the Consolidated Statement of Income. 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 Consolidated Statement of Income within Finance income or Finance costs.

### (b) 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 recognized in Other Income and presented in the Hedge reserve in Equity. The gain or loss relating to the ineffective portion is recognized immediately in the Consolidated Statement of Income within Finance income or Finance costs.

Gains and losses accumulated in Equity are included in the Consolidated Statement of Income when the foreign operation is partially disposed of or sold.

### (c) Derivatives at fair value through profit or loss are accounted for at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any of these derivative instruments are recognized immediately in the Consolidated Statement of Income within Finance income or Finance costs.

## 2.15 Inventories

Inventories are measured at the lower of historical cost or net realizable value. Cost is determined using the weighted average method and an adjustment to net realizable value is considered for items, which have not moved during the last 12 months. The cost of finished goods and work in progress comprise raw materials, direct labor, other direct costs and related production overhead based on normal operating capacity but exclude borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and any applicable variable selling expenses.

## 2.16 Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are measured at the lower of carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefits and investment property, which continue to be measured in accordance with the Group’s other accounting policies. Impairment losses on initial classification as held-for sale and subsequent gains or losses on re-measurement are recognized in the Consolidated Statement of Income.

Once classified as assets held-for-sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

## 2.17 Share capital

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

When 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 shareholders until the shares are cancelled or reissued. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. 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 within Share premium.

Private placements need to be approved by the shareholders at the Company‘s Annual General Meeting. Based on such resolution, where the shareholders waive their pre-emptive rights, the Board of Directors can approve for a private placement.

## 2.18 Provisions

Provisions for restructuring costs and legal claims are recognized 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 can be reliably estimated. A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

The Group provides a guarantee on certain products and undertakes to repair or replace items that fail to perform satisfactorily. If the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

A provision for guarantee commitments is recognized when the underlying product and services are sold based on historical warranty data and a weighting of possible outcomes against their associated probabilities. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

### 2.19 New standards and standards issued but not yet effective

Standards, amendments and interpretations to existing standards that are not yet effective have not been early adopted by the Group.

There were standards or amendments to existing standards which had an effective date as of 1 January 2017. As part of the International Accounting Standards Board Disclosure Initiative, amendments to IAS 7 require disclosure that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The following new standards apply to the Group's Consolidated Financial Statements for the annual periods beginning on or after 1 January 2018. The Group has not early adopted the following new standards in preparing these Consolidated Financial Statements:

- IFRS 9 Financial instruments (1 January 2018).
- IFRS 15 Revenue from Contracts with Customers (1 January 2018).
- IFRS 16 Leases (1 January 2019).

### Estimated impact of the adoption of IFRS 9 and IFRS 15

The Group is required to adopt IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The Group has assessed the estimated impact that the initial application of IFRS 9 and IFRS 15, as described below, will have on its Consolidated Financial Statements.

Marel will adopt IFRS 16 Leases as well on 1 January 2018. The transition approach for IFRS 16 is the cumulative catch up approach, as a result there is no impact on Retained earnings as at 1 January 2018.

The estimated impact of the adoption of IFRS 9 and IFRS 15, as per 1 January 2018, on the Group's equity as at 1 January 2018 is based on assessments undertaken to date and is summarized below.

| | 31 December 2017 [1] | IFRS 9 [2] | IFRS 15 [3] | 1 January 2018 [4] |
|---|---|---|---|---|
| Retained earnings | 313.9 | 4.1 | (8.9) | 309.1 |

[1] Retained earnings as presented in the Consolidated Statement of Financial Position.
[2] Estimated adjustments due to adoption of IFRS 9.
[3] Estimated adjustments due to adoption of IFRS 15.
[4] Estimated adjusted opening balance at 1 January 2018.

The total estimated adjustment, net of tax, to the opening balance of the Group's equity at 1 January 2018 amounts to EUR 4.8 million (decrease of Retained earnings). The principal components of the estimated adjustments are as follows:

- IFRS 9: An increase in Retained earnings of EUR 3.7 million relating to modifications in the Group's loan facilities and an increase in Retained earnings of EUR 0.4 million as a result of a reduction in the impairment of Trade receivables.
- IFRS 15: A decrease in Retained earnings of EUR 3.0 million due to later recognition of revenues (and some associated costs) for standard equipment and a decrease in Retained earnings of EUR 5.9 million due to alignment of margins for all phases of the complete system or solution.

Further details on the estimated adjustments are presented below.

### IFRS 9 Financial instruments

In July 2014 the International Accounting Standards Board ("IASB") issued the final version of IFRS 9 Financial Instruments which has been endorsed by the European Union. The new version, with minor amendments in 2017, includes revised requirements for the classification and measurement of financial assets and liabilities and regulations on the impairment of financial instruments; with the new expected credit loss ("ECL") model losses are recognized earlier because both existing and expected losses are recognized.

The standard is effective for financial reporting periods beginning on or after 1 January 2018; earlier application is permitted. In general the new regulations must be applied retrospectively, but various transition options are allowed.
IFRS 9 contains a new classification and measurement approach for financial assets and liabilities that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, Fair Value Through Other Comprehensive Income ("FVOCI") and Fair Value Through Profit and Loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables but will affect the carrying amount of borrowings as modifications of financing facilities will be accounted for differently under IFRS 9, which will have impact on the modification, as performed in 2017, of the Group's financing facility.

### Impairment – Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking expected credit loss model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

Under IFRS 9, loss allowances will be measured based on the ECLs that result from all possible default events over the expected life of a financial instrument. Marel's financial assets are currently limited to trade receivables and contract assets without significant financing components and are as such always impaired based on lifetime ECLs.

The Group expects impairments losses to remain at similar levels as they are currently going forward, although they become more volatile for assets in the scope of the IFRS 9 impairment model. Based on the impairment methodology described below, the Group has estimated that application of IFRS 9's impairment requirements at 1 January 2018 results in a reduction of impairment losses of EUR 0.4 million for Trade receivables.

### Impairment – Trade and other receivables, including contract assets

The estimated ECLs were calculated based on actual credit loss experience over the past five years. The Group takes a holistic view of it financial assets and applies the same expected credit loss rate over all Trade receivables.

The Group estimated that application of IFRS 9's impairment requirements at 1 January 2018 results in a decrease of EUR 0.4 million over the impairment recognized under IAS 39. The following table provides information about the estimated exposure to credit risk and ECLs for Trade and Other receivables, including contract assets as at 1 January 2018.

| | Estimated gross carrying amount | Weighted average loss rate | Estimated loss allowance |
|---|---|---|---|
| Current (not past due) | 82.6 | 0.08% | (0.1) |
| 1-30 days past due | 22.0 | 0.33% | (0.1) |
| 31-60 days past due | 7.1 | 0.88% | (0.1) |
| 61-90 days past due | 3.7 | 1.85% | (0.1) |
| More than 90 days past due | 19.8 | 8.55% | (1.7) |
| | **135.2** | | **(2.1)** |

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### Impairment – Cash and cash equivalents
The majority of cash and cash equivalents are held with bank and financial institution counterparties, which have a rating of A, based on Standard & Poor's ratings as at 31 December 2017. Marel holds majority of its cash and cash equivalents with financial institutions that are lending partners to the Group to minimize further credit risks.

The Group does not expect any impairment on cash and cash equivalents as the Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

### Classification – Financial liabilities
IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of derivative liabilities designated as at FVTPL are recognized in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and,
- the remaining amount of change in the fair value is presented in profit or loss.

Under IFRS 9, entities will have to account for modifications and revisions on its financial liabilities and report any (expected) gain or loss as a result in the Statement of Income at the day of modification or revision. IFRS 9 transition requires a retrospective application and as a result of the modification of the borrowings of 5 May 2017 the Group will recognize an adjustment in Retained earnings in the opening balance sheet of 1 January 2018. This will increase Retained earnings by EUR 3.7 million and reduce the carrying amount of borrowings by EUR 4.9 million.

The Group's assessment did not indicate any other material impact regarding the classification of financial liabilities at 1 January 2018.

### Hedge accounting
When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group has chosen to continue to apply the requirements of IAS 39.

### Transition
During the adoption of IFRS 9 the Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognized in Retained earnings and reserves as at 1 January 2018.

### IFRS 15 Revenue from Contracts with Customers
In May 2014 the IASB issued the new standard IFRS 15 Revenue from Contracts with Customers, endorsed by the European Union in September 2016. The purpose of the new standard on revenue recognition is to bring together the large number of existing guidelines contained in various standards and interpretations. At the same time it establishes uniform core principles to be applied to all industries and all types of revenue transactions. A 5-step model is used to determine at which point in time or over which period of time revenues are to be recognized and in what amount. The standard also includes further detailed guidance and extended disclosure requirements.

The standard is effective for financial reporting periods beginning on or after 1 January 2018. Marel has decided not to opt for early application of IFRS 15. The transition guidance of IFRS 15 permits a full retrospective or a modified retrospective approach on initial application.

The new standard is based on the principle that revenue is recognized when or as control of a good or service is transferred to a customer.

### Sales of goods
Revenue is recognized under IAS 18 and IAS 11 when the related risks and rewards of the goods or services are transferred to the customer. Hence revenues are recognized at a point in time or over time depending on the contractual arrangement with the customer.

In Marel's business model, sales of goods relates to sales of standard equipment and sales of complete solutions or systems.

Standard equipment requires no or minor modifications as requested by customers. Sales of complete solutions or systems require significant modifications either requested by the customer or required to fulfill the customer's needs. Under IFRS 15 revenue will be recognized when or as the customer obtains control of the goods or services.

Revenues for standard equipment, currently accounted for by the percentage of completion method in accordance with IAS 11, will have to be recognized later, as the IFRS 15 criteria for revenue recognition over time are not met. The estimated impact on Retained earnings at 1 January 2018 as a result of changes for standard equipment at that date is a decrease of EUR 3.0 million.

For the sale of complete solutions or systems, revenue is currently recognized over time. Revenue is recognized as the Group manufactures the equipment. Under IFRS 15, the recognition of revenue for these categories will not change. Under IFRS 15, all these complete solutions or systems are deemed to not have an alternative use and Marel has an enforceable right to payment and therefore related revenues will be recognized over time.

Based on the Group's assessment, the current accounting practice of the Group for complete solutions or systems is in line with IFRS 15 guidance. Therefore the Group does not expect the application of IFRS 15 to result in differences in the timing of revenue recognition for such solutions or systems. Under IFRS 15, complete solutions or systems should have a similar margin for all components of the solution or system. As a result of the adoption of IFRS 15 Marel will align the margins for all phases of the solution or systems, which will result in deferral of margins. The estimated impact on Retained earnings at 1 January 2018 as a result of alignment of margins is a decrease of EUR 5.9 million.

### Rendering of services

The Group is involved in manufacturing of equipment, as well as performing related maintenance services to the equipment. If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. Revenue is currently recognized using the percentage of completion method.

Under IFRS 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the list prices at which the Group sells the services in separate transactions. Revenue relating to maintenance services is recognized over time although the customer pays up-front in full for these services. A contract liability is recognized for revenue relating to the maintenance services at the time of the initial sales transaction and is recognized as revenue over the service period.

Based on the Group's assessment, the fair value and the stand-alone selling prices of the services are broadly similar. Therefore, the Group does not expect the application of IFRS 15 to result in significant differences in the timing of revenue recognition for these services.

### Commissions

The Group will apply the practical expedient in relation to the incremental costs of obtaining a contract. The Group will recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less. Costs for obtaining a contract for which the contract exceeds one year will be capitalized and amortized.

Based on the Group's assessment, the commissions are not expected to result in significant differences in recognition of revenues nor costs.

### Transition

The Group intends to adopt the IFRS 15 standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognized in Retained earnings as of 1 January 2018 and that comparatives will not be restated.

The Group has also opted for the following practical expedient: to apply the new IFRS 15 standard to only those contracts that are not considered completed contracts under current standards at the date of initial application.

### IFRS 16 Leases

In January 2016 the IASB issued the new standard IFRS 16 Leases, which is to replace the current lease standard IAS 17, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The European Union has endorsed the standard in October 2017.

Apply of the new standard is mandatory for financial years beginning on or after 1 January 2019. The Group will apply early adoption of this standard and start reporting as of 1 January 2018.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

The Group has completed a detailed assessment of the potential impact on its consolidated financial statements.

The most significant impact identified is that the Group will recognize new assets and liabilities for its operating leases of office buildings and vehicles

The current requirement to differentiate between finance leases and operating leases under IAS 17 will therefore no longer apply for lessees. Under IFRS 16 for all leases the lessee must recognize a lease liability on the Statement of Financial Position in the present value of future lease payments of the respective lease plus directly allocated costs and at the same time recognize a corresponding right of use to the underlying asset. Over the term of the lease, the lease liability is adjusted using financial mathematics methods – similar to the rules for finance leases under the current IAS 17 – and the right of use is depreciated.

As at 1 January 2018, the estimated additional assets and liabilities on the Statement of Financial Position will be in the region of EUR 36 million. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The expected impact of the change is an increase of EUR 1.0 million in 2018 of total costs, mostly in the form of increased interest expenses.

The Group does not expect the adoption of IFRS 16 to impact its ability to comply with the revised maximum leverage threshold loan covenants.

### Transition

As a lessee, the Group can either apply the standard using a:

- Retrospective approach; or
- Cumulative catch up approach with optional practical expedients.

The lessee has to apply the election consistently to all of its leases.

The Group will apply IFRS 16 initially on 1 January 2018, using the cumulative catch up approach and measuring the amounts equal to liability at adoption, with no restatement of comparative information.

## 3 Critical accounting estimates and assumptions

Estimates and judgements are continuously 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 actual results will, by definition, seldom be exactly equal to the related accounting estimates used.

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) Purchase price adjustments

Acquisitions by Marel as part of business combinations, which will be accounted for by the acquisition method, will result in recognition of goodwill and other intangible assets. The amounts assigned to the acquired assets and liabilities are based on assumptions and estimates about their fair values. In making these estimates, management consulted independent, qualified appraisers, if appropriate. A change in assumptions and estimates could change the values allocated to certain assets and their estimated useful lives, which could affect the amount or timing of charges to the Consolidated Statement of Income, such as amortization of intangible assets.

### (b) Estimated impairment

The Group annually tests whether the financial and non-financial assets, including goodwill, were impaired in accordance with the accounting policy stated in note 2.11 and 2.12. The recoverable amounts of CGU have been determined based on value in use calculation. These calculations require the use of estimates (note 13).

### (c) Income taxes and deferred income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement 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 recognizes 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.

### (d) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date. The Group uses discounted cash flow analysis for available-for-sale financial assets that are not traded in active markets.

### (e) Capitalized development cost

The recoverability of the capitalized development cost is tested regularly and is subject to the annual impairment tests, to verify if expected future economic benefits justify the values captured in the intangible fixed assets. The Group uses discounted cash flow analysis for this purpose.

### (f) Revenue recognition

The Group uses the percentage of completion method in accounting for its revenues for 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.

In the following table the book values of the assets and liabilities which include an element of estimation are disclosed.

| | | 2017 | | 2016 | |
|---|---|---|---|---|---|
| | Notes | Assets | Liabilities | Assets | Liabilities |
| Goodwill | 13 | 643.9 | - | 635.2 | - |
| Other intangible assets | 13 | 262.7 | - | 277.5 | - |
| Current and deferred income taxes | 15 | 4.4 | 72.3 | 7.3 | 72.6 |
| Financial instruments | 22 | 0.9 | 2.7 | 0.4 | 4.9 |
| Production contracts | 17 | 48.2 | 209.6 | 37.0 | 150.8 |

## 4 Acquisitions

### 2017

### Sulmaq Industrial e Comercial S.A.

On 25 July 2017, Marel has signed an agreement to acquire 100% of the shares of Sulmaq Industrial e Comercial S.A. ("Sulmaq") from a consortium of shareholders. Sulmaq is domiciled in Brazil. The closing of the acquisition of Sulmaq took place on 31 August 2017.

Sulmaq is involved in development of projects and supply of complete slaughtering, deboning and industrialized equipment lines for hog, cattle and sheep processors according to each customer's needs and operates in Brazil and internationally. The acquisition enhances Marel's position as a leading global provider of advanced equipment and solutions to the Poultry, Meat and Fish industries and is fully in line with the Company's previously announced growth strategy. This step supports Marel's full line offering in the meat processing industry.

In accordance with IFRS 3, Business Combinations, the purchase price of Sulmaq was allocated to identifiable assets and liabilities acquired. Provisional goodwill amounted to EUR 12.6 million and is allocated to the Meat segment. The resulting goodwill from this acquisition is primarily related to the strategic (and cultural) fit of Sulmaq and Marel with highly complementary product portfolios and geographic presence, new customers and synergies. The goodwill is not expected to be deductible for income tax purposes.

Sulmaq contributed EUR 9.1 million to revenues and affected result from operation positively.

The fair value of the acquired identifiable assets of EUR 13.4 million primarily relates to identified customer relationships. Amortization of identified intangible assets amounted to EUR 0.2 million from the period from acquisition to 31 December 2017. The order backlog will be fully amortized before the end of 2018, the brand names will be amortized before the end of 2019 and the other identified intangible assets will be amortized in 20 years.

Under IFRS 3, up to one year from the acquisition date, the initial accounting for business combinations needs to be adjusted to reflect new information that is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. As a result of such adjustments the values of assets and liabilities recognized may change in the one-year period from the acquisition date.

The Purchase Price Allocation of Sulmaq has not yet been finalized as we are still in the process of finalizing the valuation of Property, plant and equipment. Expectation is that the Purchase Price Allocation will be finalized in the first half of 2018.

The following table summarizes the consideration paid for Sulmaq, the recognized provisional amounts of assets acquired and liabilities assumed at the acquisition date.

| | **2017** |
|---|---|
| Property, plant and equipment | 6.5 |
| Other intangible assets | 3.7 |
| Inventories | 6.1 |
| Trade and other receivables, current and non-current | 5.5 |
| Other receivables and prepayments | 0.5 |
| Cash and cash equivalents | 5.8 |
| **Assets acquired** | **28.1** |
| Long-term debt, current and non-current | 5.0 |
| Deferred and other tax liabilities | 1.7 |
| Provisions, current and non-current | 0.6 |
| Trade and other payables | 7.4 |
| **Liabilities assumed** | **14.7** |
| **Total net identified assets** | **13.4** |
| Consideration paid in cash for the transaction on 31 August 2017 | 26.0 |
| **Consideration transferred** | **26.0** |
| **Provisional goodwill on acquisition** | **12.6** |

Amortization of acquisition-related intangible assets relate to the following lines in the Consolidated Statement of Income:

| | **2017** |
|---|---|
| Cost of sales | 0.1 |
| Selling and marketing expenses | 0.1 |
| Research and development expenses | 0.0 |
| | **0.2** |

## 2016

### MPS Holding III B.V.

On 29 January 2016 Marel concluded the acquisition of MPS Holding III B.V. ("MPS") and obtained control through acquiring 100% of the issued shares of MPS.

MPS is a subsidiary of Marel Holding B.V. The purchase price was EUR 368 million on a debt-free and cash-free basis.

MPS is a leading company in primary processing solutions for the pork and beef industry as well as in innovative solutions in waste water treatment and food logistics. The acquisition enhanced Marel's position as a leading global provider of advanced equipment and solutions to the Poultry, Meat and Fish industries and is fully in line with the Company's previously announced growth strategy. This acquisition strengthened and complemented Marel's full line offering in the meat processing industry.

In accordance with IFRS 3, Business Combinations, the purchase price of MPS was allocated to identifiable assets and liabilities acquired. Goodwill amounted to EUR 246 million. The resulting goodwill from this acquisition is primarily related to the strategic (and cultural) fit of MPS and Marel with highly complementary product portfolios and geographic presence. The value of goodwill and intangible assets acquired was high for the above mentioned reasons. The goodwill is not tax deductible.

In November 2015, the Group entered into a new EUR 670 million facilities agreement with eight international banks, led by ING bank, Rabobank and ABN AMRO. The terms and conditions are generally in line with Loan Market Association corporate standards. The new facility was utilized to repay the previous facility from 2010 as well as providing funds for the acquisition of MPS. The facility converted the previous facility into an all senior facility, extended the term to 2020 as well as provided funds for the acquisition of MPS.

Amortization of acquisition related (in)tangible assets relate to the following lines in the Consolidated Statement of Income:

| | 2017 | 2016 |
|---|---|---|
| Cost of sales | 8.2 | 15.2 |
| Selling and marketing expenses | 2.7 | 6.9 |
| Research and development expenses | 6.0 | 2.5 |
| General and administrative expenses | 0.0 | - |
| | **16.9** | **24.6** |

EUR 8.2 million (2016: EUR 15.2 million) related to the fair value lift up on the order back log, EUR 8.7 million (2016: EUR 9.4 million) to amortization of identified intangible assets and a tax effect of EUR 4.2 million (2016: EUR 6.1 million). The order backlog was fully amortized mid 2017, the brand names have been amortized before the end of 2016 and the other identified intangible assets will be amortized in 20 years.

The following table summarizes the major classes of consideration transferred, and recognized amounts of assets acquired and liabilities assumed at the acquisition date.

| | 2016 |
|---|---|
| Property, plant and equipment | 18.0 |
| Other intangible assets | 199.0 |
| Inventories | 16.7 |
| Trade and other receivables | 22.2 |
| Cash and cash equivalents | 18.4 |
| **Assets acquired** | **274.3** |
| Long-term debt, current and non-current | 92.8 |
| Deferred and other tax liabilities | 51.2 |
| Production contracts | 43.6 |
| Provisions, current and non-current | 9.5 |
| Trade and other payables | 27.7 |
| **Liabilities assumed** | **224.8** |
| **Total net identified assets** | **49.5** |
| Consideration paid in cash for the transaction on 29 January 2016 | 295.1 |
| **Consideration transferred** | **295.1** |
| **Goodwill on acquisition** | **245.6** |

## 5 Segment information

### Operating segments

The identified operating segments comprise the three industries, which are the reporting segments. These operating segments form the basis for managerial decision taking. The following summary describes the operations in each of the Group's reportable segments:

- Poultry processing: Our poultry processing product range offers integrated systems for processing broilers, turkeys and ducks;
- Meat processing: Our Meat Industry specializes in the key processes of slaughtering, deboning and trimming, case ready food service and bacon processing;
- Fish processing: Marel provides advanced equipment and systems for salmon and whitefish processing, both farmed and wild, onboard and ashore;
- The 'Others' segment includes any revenues, result from operations and assets which do not belong to the three core industries.

The reporting entities are reporting their revenues per operating segment based on the industry for which the customer is using Marel's product range. Therefore inter-segment revenues do not exist, only intercompany revenues within the same segment.

Results are monitored and managed at the operating segment level, up to the result from operations. The Group's CEO reviews the internal management reports of each segment on a monthly basis. Fluctuations between quarters are mainly due to timing of receiving orders and completion of orders. Decisions on tax and financing structures including cash and cash equivalents are taken at a corporate level, therefore no financial income and expenses nor tax are allocated to the operating segments. The profit or loss per operating segment is the adjusted result from operations (before amortization of acquisition-related (in)tangible assets); finance costs and taxes are reported in the column Total.

Intercompany transactions are entered into at arm's length terms and conditions comparable to those available to unrelated parties. Information on assets per operating segment is reported; however, decisions on liabilities are taken at a corporate level and as such are not included in this disclosure.

| 2017 | Poultry | Meat | Fish | Others | Total |
|---|---|---|---|---|---|
| **Third Party Revenues** | **560.2** | **334.4** | **132.3** | **11.3** | **1,038.2** |
| **Adjusted result from operations** | **109.5** | **38.5** | **5.6** | **3.8** | **157.4** |
| Amortization of acquisition-related (in)tangible assets | | | | | (17.1) |
| Result from operations | | | | | 140.3 |
| Finance costs - net | | | | | (20.3) |
| Result before income tax | | | | | 120.0 |
| Income tax | | | | | (23.1) |
| **Net result for the period** | | | | | **96.9** |
| | | | | | |
| **Assets** | **640.3** | **642.4** | **115.8** | **42.1** | **1,440.6** |
| Depreciation and amortization | (19.7) | (26.3) | (5.6) | - | (51.6) |

| 2016 | Poultry | Meat | Fish | Others | Total |
|---|---|---|---|---|---|
| **Third Party Revenues** | **514.2** | **320.4** | **127.1** | **8.0** | **969.7** |
| **Adjusted result from operations** | **85.3** | **47.8** | **3.9** | **2.4** | **139.4** |
| Amortization of acquisition-related (in)tangible assets | | | | | (24.6) |
| Result from operations | | | | | 114.8 |
| Finance costs - net | | | | | (25.4) |
| Result before income tax | | | | | 89.4 |
| Income tax | | | | | (13.6) |
| **Net result for the period** | | | | | **75.8** |
| | | | | | |
| **Assets** | **670.9** | **560.2** | **106.0** | **55.3** | **1,392.4** |
| Depreciation and amortization | (19.3) | (36.0) | (5.3) | (0.1) | (60.7) |
| Of which Impairments | (2.2) | (3.1) | (0.2) | - | (5.5) |

## Geographical information

The Group's three operating segments operate in four main geographical areas, even though they are managed on a global basis. The home country of the Group is Iceland. The three main operating companies are located in Iceland and The Netherlands, however, these companies realize most of their revenues in other countries. The other main operating company in the United States of America is realizing most of their revenues in North America.

Within the segments and within the operating companies Marel is not relying on major customers.

| Revenues, allocated based on country where the customer is located | 2017 | 2016 |
|---|---|---|
| Iceland | 7.2 | 7.7 |
| The Netherlands | 33.6 | 30.9 |
| Europe other | 459.7 | 444.6 |
| North America | 291.7 | 268.9 |
| Other countries | 246.0 | 217.6 |
| | **1,038.2** | **969.7** |

| Total assets excluding Cash and cash equivalents | 2017 | 2016 |
|---|---|---|
| Iceland | 118.0 | 117.4 |
| The Netherlands | 939.5 | 935.5 |
| Europe other | 146.9 | 121.8 |
| North America | 138.4 | 150.9 |
| Other countries | 65.9 | 21.3 |
| | **1,408.7** | **1,346.9** |

Total assets exclude the Group's cash pool which the Group manages at corporate level.

| Capital expenditure | 2017 | 2016 |
|---|---|---|
| Iceland | 7.6 | 6.9 |
| The Netherlands | 27.9 | 24.1 |
| Europe other | 16.5 | 7.1 |
| North America | 5.1 | 5.6 |
| Other countries | 0.8 | 0.6 |
| | **57.9** | **44.3** |

## 6 Expenses by nature and Adjusted result from operations

| | 2017 | 2016 |
|---|---|---|
| Cost of goods sold | 359.8 | 338.7 |
| Employee benefits | 363.9 | 339.5 |
| Depreciation and amortization | 51.6 | 60.7 |
| Maintenance and rent of buildings and equipment | 16.6 | 15.2 |
| Other | 106.0 | 100.8 |
| | **897.9** | **854.9** |

Management has presented Adjusted result from operations as performance measure in the Consolidated Statement of Income and believes that this measure is relevant to an understanding of the Group's financial performance. Adjusted result from operations is calculated by adjusting Result from operations to exclude the impact of amortization of acquisition-related (in)tangible assets.

Adjusted result from operations is not a defined performance measure in IFRS. The Group's definition of Adjusted Result from operations may not be comparable with similarly titled performance measures and disclosures by other entities.

## 7 Net Finance costs

| | 2017 | 2016 |
|---|---|---|
| Interest on borrowings | (12.8) | (20.7) |
| Interest on finance leases | (0.0) | (0.0) |
| Other finance expenses | (4.9) | (5.3) |
| Net foreign exchange transaction losses | (3.5) | - |
| **Subtotal Finance costs** | **(21.2)** | **(26.0)** |
| Finance income: | | |
| Interest income | 0.9 | 0.5 |
| Net foreign exchange transaction gains | - | 0.1 |
| **Subtotal Finance income** | **0.9** | **0.6** |
| **Net Finance costs** | **(20.3)** | **(25.4)** |

## 8 Staff costs

| **Employee benefit expenses** | 2017 | 2016 |
|---|---|---|
| Salaries and wages | 306.2 | 284.4 |
| Social security contributions | 35.2 | 34.9 |
| Expenses related to equity-settled share-based payments | 0.6 | 0.3 |
| Post retirement costs | 21.9 | 19.9 |
| | **363.9** | **339.5** |

The employee benefit expenses relate to employees who are working on the payroll of Marel, both with permanent and temporary contracts.

Employee benefit expenses are presented in the Consolidated Statement of Income as follows:

| | 2017 | 2016 |
|---|---|---|
| Cost of sales | 164.0 | 153.1 |
| Selling and marketing expenses | 93.5 | 87.6 |
| Research and development expenses | 59.6 | 52.3 |
| General and administrative expenses | 46.8 | 46.5 |
| | **363.9** | **339.5** |

For further information on post-employment benefit costs, see note 21

For details on the remuneration of the members of the Board of Directors and the CEO, see note 26.

The average number of employees in FTEs per cost category is summarized as follows:

| **Employees in FTEs** | 2017 | 2016 |
|---|---|---|
| Cost of sales | 2,380 | 2,248 |
| Selling and marketing expenses | 1,028 | 957 |
| Research and development expenses | 446 | 416 |
| General and administrative expenses | 651 | 621 |
| Employees | **4,505** | **4,242** |
| 3rd party workers | 407 | 357 |
| | **4,912** | **4,599** |

Employees consist of those persons working on the payroll of Marel and whose costs are reflected in the Employee benefit expenses table above. 3rd party workers consist of personnel hired on a per-period basis, via external companies.

## 9 Fees to Auditors

The table below shows the fees to KPMG attributable to the fiscal years 2016 and 2017.

| | 2017 | 2016 |
|---|---|---|
| Financial Statement audit fees | 0.7 | 0.7 |
| Other fees, including tax services | 0.2 | 0.1 |
| | **0.9** | **0.8** |

## 10 Income tax

| **Income tax recognized in the Consolidated Statement of Income** | **2017** | **2016** |
|---|---|---|
| Current tax | (24.4) | (15.2) |
| Deferred tax | 1.3 | 1.6 |
| | **(23.1)** | **(13.6)** |

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:

| **Reconciliation of effective income tax** | **2017** | % | **2016** | % |
|---|---|---|---|---|
| Result before income tax | 120.0 | | 89.4 | |
| Income tax using Icelandic rate | (24.0) | 20.0 | (17.9) | 20.0 |
| Effect of tax rates in other jurisdictions | (8.1) | 6.8 | (4.6) | 5.1 |
| Weighted average applicable tax | (32.1) | 26.7 | (22.5) | 25.1 |
| Foreign exchange effect Iceland | (0.4) | 0.3 | 1.2 | (1.3) |
| Research and development tax incentives | 5.1 | (4.2) | 5.6 | (6.1) |
| Permanent differences | 0.2 | (0.2) | 0.4 | (0.5) |
| Tax losses (un)recognized | (0.1) | 0.1 | 0.0 | - |
| (Impairment)/reversal of tax losses | 0.3 | (0.2) | 0.8 | (0.9) |
| Effect of tax rate changes | 1.1 | (0.9) | 0.3 | (0.4) |
| Others | 2.8 | (2.3) | 0.6 | (0.7) |
| **Tax charge included in the profit or loss for the period** | **(23.1)** | **19.3** | **(13.6)** | **15.2** |

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax laws and prior experience.

## 11 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders 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.

| **Basic earnings per share (EUR cent per share)** | **2017** | **2016** |
|---|---|---|
| Net result attributable to Shareholders | 96.8 | 75.7 |
| Weighted average number of outstanding shares in issue (millions) | 706.6 | 715.4 |
| **Basic earnings per share (EUR cent per share)** | **13.70** | **10.59** |

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: stock options. For the stock 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 stock 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 stock options.

| **Diluted earnings per share (EUR cent)** | **2017** | **2016** |
|---|---|---|
| Net result attributable to Shareholders | 96.8 | 75.7 |
| Weighted average number of outstanding shares in issue (millions) | 706.6 | 715.4 |
| Adjustments for stock options (millions) | 3.8 | 3.5 |
| **Weighted average number of outstanding shares for diluted earnings per share (millions)** | **710.4** | **718.9** |
| **Diluted earnings per share (EUR cent per share)** | **13.63** | **10.54** |

## 12 Property, plant and equipment

| | Land & buildings | Plant & machinery | Under construction | Vehicles & equipment | Total |
|---|---|---|---|---|---|
| **At 1 January 2017** | | | | | |
| Cost | 130.1 | 93.4 | 1.6 | 41.0 | 266.1 |
| Accumulated depreciation | (41.8) | (69.8) | - | (35.5) | (147.1) |
| **Net book value** | **88.3** | **23.6** | **1.6** | **5.5** | **119.0** |
| **Year ended 31 December 2017** | | | | | |
| Opening net book value | 88.3 | 23.6 | 1.6 | 5.5 | 119.0 |
| Divestments | (0.1) | 0.0 | - | (0.3) | (0.4) |
| Effect of movements in exchange rates | (1.4) | (0.7) | (0.1) | (0.3) | (2.5) |
| Additions | 2.6 | 5.3 | 23.3 | 2.8 | 34.0 |
| Business combinations, note 4 | 6.5 | - | - | - | 6.5 |
| Transfer between categories | 4.2 | 0.9 | (5.1) | 0.0 | (0.0) |
| Depreciation charge | (4.3) | (5.5) | - | (2.1) | (11.9) |
| **Closing net book value** | **95.8** | **23.6** | **19.7** | **5.6** | **144.7** |
| **At 31 December 2017** | | | | | |
| Cost | 146.4 | 96.8 | 19.7 | 42.2 | 305.1 |
| Accumulated depreciation | (50.6) | (73.2) | - | (36.6) | (160.4) |
| **Net book value** | **95.8** | **23.6** | **19.7** | **5.6** | **144.7** |

| | Land & buildings | Plant & machinery | Under construction | Vehicles & equipment | Total |
|---|---|---|---|---|---|
| **At 1 January 2016** | | | | | |
| Cost | 106.0 | 63.5 | 3.4 | 40.8 | 213.7 |
| Accumulated depreciation | (38.0) | (50.4) | - | (36.3) | (124.7) |
| **Net book value** | **68.0** | **13.1** | **3.4** | **4.5** | **89.0** |
| **Year ended 31 December 2016** | | | | | |
| Opening net book value | 68.0 | 13.1 | 3.4 | 4.5 | 89.0 |
| Divestments | (0.1) | (0.0) | - | (0.5) | (0.6) |
| Effect of movements in exchange rates | 0.8 | 0.2 | (0.0) | 0.5 | 1.5 |
| Additions | 8.2 | 7.4 | 3.5 | 1.9 | 21.0 |
| Business combinations, note 4 | 12.9 | 4.6 | 0.2 | 0.2 | 17.9 |
| Transfer between categories | 1.3 | 3.4 | (5.5) | 0.8 | - |
| Depreciation charge | (2.8) | (5.1) | - | (1.9) | (9.8) |
| **Closing net book value** | **88.3** | **23.6** | **1.6** | **5.5** | **119.0** |
| **At 31 December 2016** | | | | | |
| Cost | 130.1 | 93.4 | 1.6 | 41.0 | 266.1 |
| Accumulated depreciation | (41.8) | (69.8) | - | (35.5) | (147.1) |
| **Net book value** | **88.3** | **23.6** | **1.6** | **5.5** | **119.0** |

Depreciation of property, plant and equipment analyses as follows in the Consolidated Statement of Income:

| | 2017 | 2016 |
|---|---|---|
| Cost of sales | 6.2 | 5.4 |
| Selling and marketing expenses | 0.7 | 0.7 |
| Research and development expenses | 0.4 | 0.3 |
| General and administrative expenses | 4.6 | 3.4 |
| Amortization of acquisition-related tangible assets | 0.0 | - |
| | **11.9** | **9.8** |

The carrying amount of the assets recognized under finance lease is EUR 0.2 million (2016: EUR 0.1 million).

The insurance value of real estate is not materially different from the replacement value (note 24). The Group Insurance value of buildings amounts to EUR 130 million (2016: EUR 147 million), production machinery and equipment including software and office equipment amounts to EUR 147 million (2016: EUR 160 million) and inventories to EUR 142 million (2016: EUR 142 million).

## 13 Goodwill and intangible assets

| | Goodwill | Technology & develop-ment costs | Customer relations, patents & trademarks | Other intangibles | Total |
|---|---|---|---|---|---|
| **At 1 January 2017** | | | | | |
| Cost (including transfers between categories) | 635.2 | 218.9 | 172.8 | 63.9 | 455.6 |
| Accumulated amortization (including transfers between categories) | - | (102.1) | (39.2) | (36.8) | (178.1) |
| **Net book value** | **635.2** | **116.8** | **133.6** | **27.1** | **277.5** |
| | | | | | |
| **Year ended 31 December 2017** | | | | | |
| Opening net book value | 635.2 | 116.8 | 133.6 | 27.1 | 277.5 |
| Business combinations, note 4 | 12.6 | 0.4 | 3.2 | 0.1 | 3.7 |
| Transfer between categories | - | 0.0 | - | 0.0 | 0.0 |
| Exchange differences | (3.9) | (2.2) | (0.4) | (0.1) | (2.7) |
| Additions | - | 15.5 | - | 8.4 | 23.9 |
| Amortization charge | - | (15.8) | (11.0) | (12.9) | (39.7) |
| **Closing net book value** | **643.9** | **114.7** | **125.4** | **22.6** | **262.7** |
| | | | | | |
| **At 31 December 2017** | | | | | |
| Cost | 643.9 | 232.4 | 171.6 | 73.3 | 477.3 |
| Accumulated amortization | - | (117.7) | (46.2) | (50.7) | (214.6) |
| **Net book value** | **643.9** | **114.7** | **125.4** | **22.6** | **262.7** |

| | Goodwill | Technology & development costs | Customer relations, patents & trademarks | Other intangibles | Total |
|---|---|---|---|---|---|
| **At 1 January 2016** | | | | | |
| Cost | 389.4 | 148.7 | 56.8 | 32.7 | 238.2 |
| Accumulated amortization | - | (82.2) | (30.2) | (18.8) | (131.2) |
| **Net book value** | **389.4** | **66.5** | **26.6** | **13.9** | **107.0** |
| | | | | | |
| **Year ended 31 December 2016** | | | | | |
| Opening net book value | 389.4 | 66.5 | 26.6 | 13.9 | 107.0 |
| Business combinations, note 4 | 245.6 | 53.7 | 137.0 | 8.3 | 199.0 |
| Exchange differences | 0.2 | (0.2) | (0.3) | (0.3) | (0.8) |
| Additions | - | 15.7 | 0.0 | 7.5 | 23.2 |
| Impairment charge | - | (5.5) | - | - | (5.5) |
| Amortization charge | - | (13.4) | (29.7) | (2.3) | (45.4) |
| **Closing net book value** | **635.2** | **116.8** | **133.6** | **27.1** | **277.5** |
| | | | | | |
| **At 31 December 2016** | | | | | |
| Cost | 635.2 | 218.9 | 172.8 | 63.9 | 455.6 |
| Accumulated amortization | - | (102.1) | (39.2) | (36.8) | (178.1) |
| **Net book value** | **635.2** | **116.8** | **133.6** | **27.1** | **277.5** |

Business combination for 2017 relate to the acquisition of Sulmaq and for 2016 to the acquisition of MPS. Further information on the acquisitions is disclosed in note 4 to the Consolidated Financial Statements.

The additions for 2017 predominantly comprise internally generated assets of EUR 23.9 million (2016: EUR 23.2 million) for product development and for development of software products.

In 2016 an impairment loss of EUR 5.5 million is reported to write-down development costs for unsuccessful development.

The impairment charge in the intangible assets analyses as follows in the Consolidated Statement of Income:

| | 2017 | 2016 |
|---|---|---|
| Research and development expenses | - | 5.5 |
| | **-** | **5.5** |

Amortization of intangible assets analyses as follows in the Consolidated Statement of Income:

| | 2017 | 2016 |
|---|---|---|
| Cost of sales | 0.0 | 0.0 |
| Selling and marketing expenses | 1.6 | 1.5 |
| Research and development expenses | 13.9 | 14.2 |
| General and administrative expenses | 7.1 | 5.1 |
| | **22.6** | **20.8** |
| Amortization of acquisition-related intangible assets | 17.1 | 24.6 |
| | **39.7** | **45.4** |

### Impairment testing

Annually goodwill is tested for impairment at the level of the CGUs. For Marel, the CGUs are based on the market oriented business model, Poultry, Meat and Fish, in accordance with IFRS 8 Operating Segments. Poultry, Meat and Fish serve the customer needs in primary, secondary and further processing. Only at the level of the operating segments the connection can be made between the businesses for which the goodwill was originally paid and the results of the synergies after the acquisitions.

The annual impairment test includes Property, plant and equipment, Goodwill, Other intangible assets and net working capital allocated to CGUs to determine the final recoverable amount.

The purpose of impairment testing is to determine whether the recoverable amount exceeds the carrying amount of the above mentioned assets. The recoverable amount of an operating segment is determined as the present value of the future cash flows expected to be derived from a CGU, based on amongst others:

- the estimated future cash flows that the Group expects the CGU to earn;
- possible variations in the amount or timing of those future cash flows;
- the time value of money, which is reflected by using a discount rate based on the current market risk-free rate of interest;
- the price for the uncertainty inherent in the CGU.

The sales growth rates and margins used to estimate future cash flows are based on management estimates that take into account past performance and experience, external market growth assumptions and industry long term averages. The weighted growth rate for the period 2019 to 2022 of forecast cash flows is between 4% and 7% for all CGUs, which is management's best estimate. These growth rates are in line with external market predictions of the worldwide industry for providing equipment and solutions for the protein industry as well. Revenues, operating results and cash flows beyond the 5 year forecast period are extrapolated using estimated growth rates of 1.9% as shown in the table on the next page. The time value of money and price of uncertainty, calculated as the Weighted Average Cost of Capital ("WACC"), are based on external market information about market risk, interest rates and some CGU specific elements like country risk. The post-tax discount rate is calculated at CGU level and is in the range of 6.9% - 7.2% (2016: 7.5% - 7.7%) for all CGUs (refer to the table on the next page). The pre-tax discount rate for the three CGUs is calculated in the range of 8.7% - 8.9% (2016: 9.4% - 9.7%).

The Goodwill impairment test performed in the fourth quarter, which was based on the numbers of 30 September 2017, and is rolled forwarded to 31 December 2017, exceeds the recoverable value of existing goodwill. Breakeven scenarios and the current scenario used show that there is sufficient headroom and that there are no triggers indicating that impairment is necessary. For all three operating segments the recoverable amount exceeds the carrying amount by a substantial amount. A stress test was performed on the impairment tests of the CGUs where the following items have been tested: the potential changes in increase in pre-tax discount rates, decrease in compound long-term growth rates or decrease in terminal value growth rates. This test showed that the conclusions of these tests would not have been different if significant adverse changes in key parameters had been assumed.

Key assumptions used in the impairment tests for the segments were sales growth rates, EBITDA and the rates used for discounting the projected cash flows. These cash flow projections were determined using managements' internal forecasts that cover an initial period from 2018. Projections were extrapolated with stable growth rates for a period of 4 years, after which a terminal value was calculated. For terminal value calculation, growth rates were capped at the lower of the historical long-term average growth rate and the long-term expected risk-free rate.

The sales growth rates and EBITDA used to estimate cash flows are based on past performance, external market growth assumptions and industry long-term growth averages. EBITDA in all segments mentioned in this note is expected to increase over the projected period as a result of volume growth and cost efficiencies.

The key assumptions used for the impairment tests are listed below.

| 2017 | Poultry | Meat | Fish | Total |
|---|---|---|---|---|
| Goodwill | 332.9 | 284.0 | 27.0 | 643.9 |
| Infinite Intangible assets | - | - | - | - |
| Terminal growth rate | 1.9% | 1.9% | 1.9% | 1.9% [1] |
| Discount rate | 7.2% | 7.1% | 6.9% | 7.1% [2] |

| 2016 | Poultry | Meat | Fish | Total |
|---|---|---|---|---|
| Goodwill | 335.4 | 272.4 | 27.4 | 635.2 |
| Infinite Intangible assets | - | - | - | - |
| Terminal growth rate | 1.8% | 1.8% | 1.8% | 1.8% [1] |
| Discount rate | 7.7% | 7.6% | 7.5% | 7.6% [2] |

[1] Weighted average growth rate used to extrapolate cash flows beyond strategic plan period.
[2] Discount rate applied to the cash flow projections.

## 14 Trade receivables, Other receivables and prepayments

| | 2017 | 2016 |
|---|---|---|
| Trade receivables | 135.2 | 120.6 |
| Less: write-down to net-realizable value | (2.3) | (5.1) |
| **Trade receivables - net** | **132.9** | **115.5** |
| Less non-current portion | (4.0) | (0.2) |
| **Current portion of Trade receivables** | **128.9** | **115.3** |
| | | |
| Prepayments | 6.2 | 5.9 |
| Other receivables | 40.4 | 26.8 |
| **Other receivables and prepayments** | **46.6** | **32.7** |
| | | |
| **Total Trade receivables, Other receivables and prepayments** | **179.5** | **148.2** |

### Non-Current receivables

Non-Current receivables are mainly associated with an escrow account regarding the acquisition of Sulmaq for EUR 4.0 million (2016: EUR 0.2 million long term outstanding debtors). All non-current receivables are due within one and five years.

### Current receivables

The carrying amounts of Trade receivables and Other receivables and prepayments approximate their fair value.

Trade receivables that are less than 90 days past due are not considered impaired. As of 31 December 2017, Trade receivables of EUR 32.8 million (2016: EUR 38.1 million) were past due but not impaired. In 2017 the write-down of Trade receivables to net realizable value amounted to EUR 0.2 million (2016: EUR 1.4 million). These relate to a number of independent customers for whom there is no recent history of default. As of 31 December 2017, Trade receivables of EUR 19.8 million (2016: EUR 11.6 million) were tested for impairment and written down when necessary. The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations.

In anticipation of adoption of IFRS 9 in 2018, Marel reassessed the impaired Trade receivables. A part of the impairment related to product risk. This part has been transferred from Write-down of Trade receivables to Production contracts for an amount of EUR 3.1 million (see also note 17).

The aging of Trade receivables is as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Gross amount | Provision for Impairment | Gross amount | Provision for Impairment |
| Not overdue | 82.6 | - | 70.9 | - |
| Up to 90 days overdue | 32.8 | - | 38.1 | - |
| Over 90 days overdue | 19.8 | (2.3) | 11.6 | (5.1) |
| | **135.2** | **(2.3)** | **120.6** | **(5.1)** |

The carrying amounts of the Group's Trade receivables (current portion) are denominated in the following currencies:

| | 2017 | 2016 |
|---|---|---|
| EUR | 70.3 | 68.9 |
| US Dollar | 38.1 | 31.2 |
| UK Pound | 4.9 | 6.2 |
| Other Currencies | 17.9 | 14.1 |
| | **131.2** | **120.4** |
| Write-down to net-realizable value | (2.3) | (5.1) |
| | **128.9** | **115.3** |

Movements on the Group Trade receivables impaired to net-realizable value are as follows:

| | 2017 | 2016 |
|---|---|---|
| **At 1 January** | **5.1** | **3.4** |
| Provision for receivables impairment | 0.2 | 1.4 |
| Receivables written off during the year as uncollectible | (0.2) | (1.5) |
| Business combinations | 0.3 | 2.3 |
| Reclassification to Production contracts and unsused amounts reversed | (3.1) | (0.5) |
| **At 31 December** | **2.3** | **5.1** |

The impairment to net-realizable value and reversals has been included in Selling and marketing expenses in the Consolidated Statement of Income.

The other classes within Other receivables and prepayments do not contain impaired assets.

Information about the Group's exposure to credit and market risks, is included in note 22.

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## 15 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:

| | 2017 | 2016 |
|---|---|---|
| **At 1 January** | **(56.2)** | **(5.9)** |
| Exchange differences and changes within the Group | 0.1 | 0.0 |
| Consolidated Statement of Income charge (excluding tax rate change) | 0.2 | 1.3 |
| Effect of change in tax rates | 1.1 | 0.3 |
| Business combinations, note 4 | (1.7) | (51.6) |
| Hedge reserve & translation reserve recognized in Other Comprehensive Income | (0.4) | (0.3) |
| **At 31 December** | **(56.9)** | **(56.2)** |

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 deferred tax charged / (credited) in the Consolidated Statement of Comprehensive Income, in Other Comprehensive Income, during the period is as follows:

| Fair value reserves in Shareholders' equity | 2017 | 2016 |
|---|---|---|
| - Employer's contribution social charges on stock option exercises | - | - |
| - Hedge reserve | (0.4) | (0.3) |
| | **(0.4)** | **(0.3)** |

The deferred tax charge recognized in the Consolidated Statement of Financial Position is as follows:

| | 2017 | 2016 |
|---|---|---|
| Deferred income tax assets | 4.4 | 7.3 |
| Deferred income tax liabilities | (61.3) | (63.5) |
| | **(56.9)** | **(56.2)** |

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. Based on future profits expected in the strategic plan, the recoverability has been tested; a reversal of EUR 0.3 million (2016: a reversal of EUR 0.8 million) has been applied. Sensitivity analysis on impairment of tax losses used the assumption of decreasing the forecast profit before tax by 5%. Based on the outcome of this calculation the impairment is not substantially affected. The Group has no unrecognized deferred tax liabilities.

Taxable effects of losses will expire according to below schedule:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Total tax losses | Of which not capitalised | Total tax losses | Of which not capitalised |
| Less than 6 years | 5.6 | 2.8 | 4.6 | 2.7 |
| Between 6 and 10 years | 40.7 | - | 44.0 | - |
| More than 10 years | 1.4 | - | 5.8 | - |
| Indefinite | 21.9 | 18.6 | 31.5 | 26.1 |
| | **69.6** | **21.4** | **85.9** | **28.8** |

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## Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | At 1 January 2017 | Recognized in income statement | Other [1] | At 31 December 2017 | Assets | Liabilites |
|---|---|---|---|---|---|---|
| Property, plant and equipment | (7.5) | 0.1 | (0.5) | (7.9) | 0.6 | (8.5) |
| Intangible assets | (67.5) | 3.9 | 1.7 | (61.9) | 1.8 | (63.7) |
| Other financial assets | 0.5 | (0.4) | (0.3) | (0.2) | 0.0 | (0.2) |
| Receivables | (1.5) | (0.9) | 0.1 | (2.3) | 0.4 | (2.7) |
| Inventories | 4.0 | (0.6) | (1.4) | 2.0 | 2.4 | (0.4) |
| Current liabilities | 2.4 | 0.3 | (0.2) | 2.5 | 0.8 | 1.7 |
| Long term liabilities | (0.3) | 0.2 | 0.1 | (0.0) | 0.1 | (0.1) |
| Provisions for pensions | 0.6 | (0.0) | (0.2) | 0.4 | 0.4 | 0.0 |
| Provisions for reorganizations | (0.0) | (0.0) | (0.0) | (0.0) | 0.0 | (0.0) |
| Provisions for guarantees | 1.2 | (0.2) | (0.8) | 0.2 | 0.5 | (0.3) |
| Provisions others | 0.2 | 0.0 | 0.1 | 0.3 | 0.4 | (0.1) |
| **Subtotal** | **(67.9)** | **2.4** | **(1.4)** | **(66.9)** | **7.4** | **(74.3)** |
| Subtotal tax losses | 11.7 | (2.6) | 0.9 | 10.0 | 13.9 | (3.9) |
| **Overall total** | **(56.2)** | **(0.2)** | **(0.5)** | **(56.9)** | **21.3** | **(78.2)** |

[1] Other includes the movements of assets and liabilities recognized in OCI, which includes foreign currency translation differences, acquisitions and divestments.

| | At 1 January 2016 | Recognized in income statement | Other [2] | At 31 December 2016 | Assets | Liabilites |
|---|---|---|---|---|---|---|
| Property, plant and equipment | (5.4) | (1.7) | (0.4) | (7.5) | 0.6 | (8.1) |
| Intangible assets | (20.3) | 4.6 | (51.8) | (67.5) | 4.8 | (72.3) |
| Other financial assets | 0.7 | 0.1 | (0.3) | 0.5 | 0.6 | (0.1) |
| Receivables | (2.2) | 0.8 | (0.1) | (1.5) | 0.3 | (1.8) |
| Inventories | 2.7 | 0.9 | 0.4 | 4.0 | 4.5 | (0.5) |
| Current liabilities | 1.1 | 1.3 | 0.0 | 2.4 | 2.5 | (0.1) |
| Long term liabilities | 0.6 | (0.9) | (0.0) | (0.3) | 0.1 | (0.4) |
| Provisions for pensions | 1.5 | (1.0) | 0.1 | 0.6 | 0.6 | (0.0) |
| Provisions for reorganizations | 0.5 | (0.5) | (0.0) | (0.0) | 0.0 | (0.0) |
| Provisions for guarantees | 0.2 | 0.2 | 0.8 | 1.2 | 1.4 | (0.2) |
| Provisions others | 0.2 | (0.1) | 0.1 | 0.2 | 0.3 | (0.1) |
| **Subtotal** | **(20.4)** | **3.7** | **(51.3)** | **(67.9)** | **15.7** | **(83.6)** |
| Subtotal tax losses | 14.4 | (2.4) | (0.3) | 11.7 | 17.3 | (5.6) |
| **Overall total** | **(6.1)** | **1.3** | **(51.6)** | **(56.2)** | **33.0** | **(89.2)** |

[2] Other includes the movements of assets and liabilities recognized in OCI, which includes foreign currency translation differences, acquisitions and divestments. The significant movement in Other relates to deferred income tax as a result of the acquisition of MPS, refer to note 4 for further information.

## 16 Inventories

| | 2017 | 2016 |
|---|---|---|
| Raw materials | 16.0 | 13.7 |
| Semi-finished goods | 95.4 | 98.8 |
| Finished goods | 33.3 | 29.9 |
| | **144.7** | **142.4** |
| Allowance for obsolescence and/or lower market value | (20.3) | (20.2) |
| | **124.4** | **122.2** |

The cost of inventories recognized as an expense and included in Cost of sales amounted to EUR 496.8 million (2016: EUR 483.4 million). In 2017 the write-down of inventories to net-realizable value amounted to EUR 4.8 million (2016: EUR 3.8 million).

There were no material reversals of write-downs to net realizable value. The write-downs recognized following a recoverability analysis are included in Cost of sales.

## 17 Production contracts

| | 2017 | 2016 |
|---|---|---|
| Ordered work in progress | 419.4 | 355.8 |
| Advances received on ordered work in progress | (581.0) | (469.7) |
| | **(161.4)** | **(113.8)** |
| Cost exceed billing | 48.2 | 37.0 |
| Billing exceed cost | (209.6) | (150.8) |
| | **(161.4)** | **(113.8)** |

In anticipation of adoption of IFRS 9 in 2018, Marel reassessed the impaired Trade receivables. A part of the impairment related to product risk. This part has been transferred from Write-down of Trade receivables to Production contracts for an amount of EUR 3.1 million (see also note 17).

An amount of EUR 241.0 million (2016: EUR 234.0 million) has been included in the Revenues of 2017 as included in the Consolidated Statement of Income. For this portion of the revenues the conditions of sale of goods are not met, therefore the IFRS treatments of construction contracts have been applied (IAS 11 Construction Contracts). Construction contract revenue has been determined based on the percentage of completion method (cost based).

## 18 Equity

| **Share Capital** | Ordinary shares (thousands) | Treasury shares (thousands) | Outstanding number of shares (thousands) |
|---|---|---|---|
| **At 1 January 2017** | 735,569 | (21,543) | 714,026 |
| Treasury shares - purchased | - | (22,200) | (22,200) |
| Treasury shares - sold | - | 1,996 | 1,996 |
| **At 31 December 2017** | **735,569** | **(41,747)** | **693,822** |
| | 100.00% | 5.68% | 94.32% |
| **At 1 January 2016** | 735,569 | (30,903) | 704,666 |
| Treasury shares - purchased | - | (4,000) | (4,000) |
| Treasury shares - sold | - | 13,360 | 13,360 |
| **At 31 December 2016** | **735,569** | **(21,543)** | **714,026** |
| | 100.00% | 2.93% | 97.07% |

| Class of share capital | 2017 | 2016 |
|---|---|---|
| Nominal value | 6.3 | 6.5 |
| Share premium reserve | 228.2 | 287.9 |
| Reserve for share based payments | 1.4 | 0.8 |
| **Total share premium reserve** | **229.6** | **288.7** |

The total authorized number of ordinary shares is 735.6 million shares (31 December 2016: 735.6 million shares) with a par value of ISK 1 per share. All issued shares are fully paid. Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at shareholders meetings of the Company. All rights attached to the Company's treasury shares are suspended until those shares are sold again.

### Dividends

In March 2017 a dividend of EUR 15.3 million (EUR 2.14 cents per share) was declared for the operational year 2016 (in 2016, a dividend of EUR 11.3 million (EUR 1.58 cents per share)) was declared and paid for the operational year 2015.

### Treasury shares

In the beginning of the year 2017 Marel had 21.5 million treasury shares. During the year 2017, Marel purchased 22.2 million treasury shares for a total amount of EUR 63.4 million. Thereof 19.7 million treasury shares were purchased to be used as a payment for potential future acquisitions and 2.5 million treasury shares were purchased to fulfill future stock options obligations.

Marel sold 0.9 million treasury shares for EUR 2.5 million to the management of Sulmaq in relation to Marel's acquisition of Sulmaq. The sold shares include a lock-up period of 18 months from the date of closing which was 31 August 2017. Marel also sold 1.1 million treasury shares for EUR 1.2 million in order to fulfill obligations of stock option agreements. At the end of 2017 Marel had 41.7 million treasury shares.

In 2016 Marel purchased 4.0 million shares for EUR 8.1 million to fulfill future stock option obligations and sold 2.6 million treasury shares for a total amount of EUR 2.7 million to fulfill the employees' stock option program. In connection with the acquisition of MPS, Marel sold 10.8 million treasury shares for EUR 16.3 million to the previous owners of MPS. At the end of 2016 Marel had 21.5 million treasury shares.

Stock options are granted to Executive Management and to selected employees. The exercise prices of options granted in June 2012, in December 2014, in August 2015 and in May 2016 are higher than the market price of the shares on the date of grant. For options granted in March 2017 the exercise price is the same as the market price at the date of grant. The option holders in the 2014, 2015, 2016 and 2017 programs are required to hold shares corresponding to approximately the net gain after tax from exercising the options, whilst employed by Marel.

Options are conditional on the employee completing particular periods' / years' service (the vesting period).

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

## Stock options

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

| | Average exercise price per share | Stock options (thousands) |
|---|---|---|
| **At 1 January 2017** | **EUR 1.339** | **8,796** |
| Granted in 2017 | EUR 2.772 | 3,200 |
| Exercised 2017 | EUR 1.067 | (1,079) |
| Forfeited in 2017 | EUR 1.668 | (1,033) |
| **At 31 December 2017** | **EUR 1.780** | **9,884** |
| **Exercisable stock options at 31 December 2017** | | **1,684** |
| **At 1 January 2016** | **EUR 1.139** | **10,549** |
| Granted in 2016 | EUR 1.924 | 2,160 |
| Exercised 2016 | EUR 1.053 | (2,559) |
| Forfeited in 2016 | EUR 1.167 | (1,354) |
| **At 31 December 2016** | **EUR 1.339** | **8,796** |
| **Exercisable stock options at 31 December 2016** | | **1,751** |

| Stock options granted in the year<br>Stock options expire in year | **2012**<br>**2018** | **2014**<br>**2021** | **2015**<br>**2021** | **2016**<br>**2022** | **2017**<br>**2021** |
|---|---|---|---|---|---|
| The exercise prices* per share after<br>31 October 2018 | EUR 1.101 | - | - | - | - |
| 28 April 2018 | | EUR 0.907 | - | - | - |
| 28 April 2019 | | EUR 0.933 | - | - | - |
| 28 April 2020 | - | EUR 0.959 | - | - | - |
| 28 April 2021 | - | EUR 0.985 | - | - | - |
| 28 October 2018 | - | - | EUR 1.440 | - | - |
| 28 October 2019 | - | - | EUR 1.480 | - | - |
| 28 October 2020 | - | - | EUR 1.521 | - | - |
| 28 October 2021 | - | - | EUR 1.561 | - | - |
| 28 April 2019 | - | - | - | EUR 1.881 | - |
| 28 April 2020 | - | - | - | EUR 1.917 | - |
| 28 April 2021 | - | - | - | EUR 1.953 | - |
| 28 April 2022 | - | - | - | EUR 1.988 | - |
| 28 April 2020 | - | - | - | - | EUR 2.779 |

*) Exercise prices after dividend payment in 2013; EUR 0.0097 per share, after dividend payment in 2015; EUR 0.0048, after dividend payment in 2016; EUR 0.0158 and after dividend payment in 2017; EUR 0.0214.

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In 2017 the following shares were exercised: 390 thousand shares at exercise price EUR 1.057 per share and 689 thousand shares at exercise price EUR 1.072 per share. No options were cash settled.

In 2016 the following shares were exercised: 2,012 thousand shares at exercise price EUR 1.050 per share and 547 thousand shares at exercise price EUR 1.064 per share. No stock options were cash settled.

The fair value of the employee stock options granted is measured using the Black-Scholes model. Variables used in the Black Scholes calculation:

| | Exercise price per share (EUR) | Expected term (years) | Annual dividend yield | Expected risk-free interest rate | Estimated volatility | Weighted average remaining contr. life in months *) |
|---|---|---|---|---|---|---|
| Option plan June 2012 | | | | | | |
| 60% exercisable > 31 October 2015 | 1.066 | 3.4 | 0.96% | 3% | 19.68% | 10 |
| 20% exercisable > 31 October 2016 | 1.095 | 4.4 | 0.96% | 3% | 19.68% | 10 |
| 20% exercisable > 31 October 2017 | 1.124 | 5.4 | 0.96% | 3% | 19.68% | 10 |
| Option plan December 2014 | | | | | | |
| 60% exercisable > 28 April 2018 | 0.949 | 3.0 | 0.00% | 3% | 22.04% | 40 |
| 20% exercisable > 28 April 2019 | 0.975 | 4.0 | 0.00% | 3% | 22.04% | 40 |
| 20% exercisable > 28 April 2020 | 1.001 | 5.0 | 0.00% | 3% | 22.04% | 40 |
| Option plan August 2015 | | | | | | |
| 60% exercisable > 28 October 2018 | 1.477 | 3.0 | 0.00% | 3% | 22.04% | 46 |
| 20% exercisable > 28 October 2019 | 1.517 | 4.0 | 0.00% | 3% | 22.04% | 46 |
| 20% exercisable > 28 October 2020 | 1.558 | 5.0 | 0.00% | 3% | 22.04% | 46 |
| Option plan May 2016 | | | | | | |
| 60% exercisable > 28 April 2019 | 1.902 | 3.0 | 0.00% | 2% | 21.52% | 52 |
| 20% exercisable > 28 April 2020 | 1.938 | 4.0 | 0.00% | 2% | 21.52% | 52 |
| 20% exercisable > 28 April 2021 | 1.974 | 5.0 | 0.00% | 2% | 21.52% | 52 |
| Option plan March 2017 | | | | | | |
| 100% exercisable > 28 April 2020 | 2.779 | 3.0 | 0.00% | 2% | 23.72% | 28 |

*) Based on last possible exercise dates in each stock option plan.

## Reserves

### Share premium reserve

The Share premium reserve comprises of payment in excess of par value of ISK 1 per share that shareholders have paid for shares sold by the Company, less payments in excess of par value that the Company has paid for treasury shares. According to the Icelandic Companies Act, 25% of the nominal value share capital must be held in reserve which cannot be paid out as dividend to shareholders. Marel is compliant with this requirement.

### Other reserves

Other reserves in Shareholder's equity include the following reserves:

- Hedge reserve: comprises revaluations on derivatives, on which hedge accounting is applied. The value of 31 December 2017 and 2016 relates to derivatives for the Group, the interest rate swap contracts.
- Translation reserve: comprises the translation results of the consolidation of subsidiaries reporting in foreign currencies, as well as a currency revaluation related to financing of subsidiaries.

| | Hedge reserve | Translation reserve | Total other reserves |
|---|---|---|---|
| **Balance at 1 January 2017** | **(0.8)** | **(1.3)** | **(2.1)** |
| Total other comprehensive income | 1.4 | (7.5) | (6.1) |
| **Balance at 31 December 2017** | **0.6** | **(8.8)** | **(8.2)** |
| **Balance at 1 January 2016** | **(2.5)** | **(2.6)** | **(5.1)** |
| Total other comprehensive income | 1.7 | 1.3 | 3.0 |
| **Balance at 31 December 2016** | **(0.8)** | **(1.3)** | **(2.1)** |

### Limitation in the distribution of Shareholders' equity

As at 31 December 2017, pursuant to Icelandic law, certain limitations exist relating to the distribution of Shareholders' equity. Such limitations relate to legal reserves required by Icelandic law included under Retained earnings for capitalized intangible assets related to product development projects and for legal reserves relating to any legal or economic restrictions to the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

The legal reserve included under Retained earnings for capitalized intangible assets related to product development projects amounted to EUR 65.3 million as at 31 December 2017 (31 December 2016: EUR 63.4 million).

Since the profits retained in Marel hf.'s subsidiaries can be distributed and received in Iceland, no legal reserve for any legal or economic restrictions to the ability of affiliated companies to transfer funds to the parent company in the form of dividends is required.

The amount of the legal reserve for the share of profit of affiliates is reduced by dividends received from those companies and those dividends from them which can be claimed.

Therefore Marel could, based on its control as the parent company, decide to let its subsidiaries pay dividends. The dividends would lower the amount of legal reserves within equity and therefore leave more room for Marel to make dividend payments to its shareholders. The new provision of the act does not prevent Marel from making dividend payments to its shareholders in 2018 since the Company has sufficient retained earnings from previous years. The legal reserves as required by Icelandic law are required as of effective date 1 January 2016.

### Non-controlling interests

Non-controlling interests ("NCI") relate to minority shares held by third parties in consolidated Group companies. The net income attributable to NCI amounted to EUR 0.1 million in 2017 (2016: EUR 0.1 million).

The NCI relates to MPS France S.A.R.L., France, in which the managing director of MPS France holds an ownership percentage of 24%.

## 19 Borrowings

As of 31 December 2017, interest bearing debt amounted to EUR 411.6 million (31 December 2016: EUR 466.4 million), of which nothing (31 December 2016: EUR 465.5 million) is secured against shares that Marel hf. holds in certain subsidiaries. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. No assets have been pledged as security for liabilities.

The Group loan agreements contain restrictive covenants, relating to interest cover and leverage. At 31 December 2017 and 2016 the Group complies with all restrictive covenants.

The Group has the following headroom in committed ancillary facilities:

| Floating rate | 2017 | 2016 |
|---|---|---|
| Expiring within one year | - | - |
| Expiring beyond one year | 150.2 | 144.5 |
| | **150.2** | **144.5** |

| | 2017 | 2016 |
|---|---|---|
| Bank borrowings | 370.5 | 425.0 |
| Finance lease liabilities | 0.2 | 0.0 |
| Non-current | **370.7** | **425.0** |
| Bank borrowings excluding bank overdrafts | 26.2 | 24.1 |
| **Total borrowings** | **396.9** | **449.1** |
| | | |
| Bank Borrowings | 396.7 | 449.1 |
| Finance lease liabilities | 0.2 | 0.0 |
| **Total borrowings** | **396.9** | **449.1** |

| **2017**<br>Annual maturity of non-current liabilities | Bank loans / revolver | Capitalized finance charges | Embedded derivatives | Finance lease liabilities | Total **2017** |
|---|---|---|---|---|---|
| Between 1 and 2 years | 30.3 | (3.5) | (0.7) | 0.1 | 26.2 |
| Between 2 and 3 years | 30.4 | (3.5) | (0.6) | 0.1 | 26.4 |
| Between 3 and 4 years | 30.4 | (1.3) | (0.6) | 0.0 | 28.5 |
| Between 4 and 5 years | 289.2 | - | (0.1) | - | 289.1 |
| After 5 years | 0.5 | - | - | - | 0.5 |
| | **380.8** | **(8.3)** | **(2.0)** | **0.2** | **370.7** |

| **2016**<br>Annual maturity of non-current liabilities | Bank loans / revolver | Capitalized finance charges | Embedded derivatives | Finance lease liabilities | Total **2016** |
|---|---|---|---|---|---|
| Between 1 and 2 years | 30.0 | (4.7) | (1.2) | 0.0 | 24.1 |
| Between 2 and 3 years | 30.0 | (4.3) | (0.8) | 0.0 | 24.9 |
| Between 3 and 4 years | 375.4 | - | (0.4) | 0.0 | 375.0 |
| Between 4 and 5 years | - | - | - | - | - |
| After 5 years | 1.0 | - | - | - | 1.0 |
| | **436.4** | **(9.0)** | **(2.4)** | **0.0** | **425.0** |

Reconciliation of movements of liabilities to cash flows arising from financing activities:

| | | Derivatives | | Equity | | | | |
|---|---|---|---|---|---|---|---|---|
| | Borrowings | Interest rate swap and forward exchange contracts used for hedging –assets | Interest rate swap and forward exchange contracts used for hedging –liabilities | Share Capital and share premium reserve | Other reserves | Retained earnings | NCI | Total |
| **At 1 January 2017** | **449.1** | **0.4** | **4.9** | **295.2** | **(2.1)** | **232.3** | **0.2** | **980.0** |
| *Changes from financing cash flows* | | | | | | | | - |
| Proceeds from loans and borrowings | 130.0 | | | | | | | **130.0** |
| Purchase of treasury shares | | | | (63.4) | | | | **(63.4)** |
| Proceeds from exercise of share options | | | | 4.1 | | | | **4.1** |
| Proceeds from settlement of derivatives | 0.6 | | | | | | | **0.6** |
| Repayment of borrowings | (177.2) | | | | | | | **(177.2)** |
| Dividend paid | | | | | | (15.3) | | **(15.3)** |
| **Total changes from financing cash flows** | **402.5** | **0.4** | **4.9** | **235.9** | **(2.1)** | **217.0** | **0.2** | **858.8** |
| Changes arising from obtaining or losing control of subsidiaries or other businesses | 5.0 | | | | | | | **5.0** |
| The effect of changes in foreign exchange rates | (11.7) | | | | | | | **(11.7)** |
| **Changes in fair value** | **(6.7)** | **-** | **-** | **-** | **-** | **-** | **-** | **(6.7)** |
| *Other changes* | | | | | | | | |
| Liability related | (1.0) | 0.5 | (2.2) | | | | | **(2.7)** |
| New finance leases | 0.2 | | | | | | | **0.2** |
| Capitalised borrowing costs | 1.8 | | | | | | | **1.8** |
| **Total liability-related other changes** | **1.0** | **0.5** | **(2.2)** | **-** | **-** | **-** | **-** | **(0.7)** |
| Total equity-related other changes | | | | | (6.1) | 96.9 | 0.1 | **90.9** |
| **Balance at 31 December 2017** | **396.8** | **0.9** | **2.7** | **235.9** | **(8.2)** | **313.9** | **0.3** | **942.3** |

## 20 Provisions

| | Guarantee commit-ments | Pension commit-ments *) | Refocusing provisions | Other provisions | Total |
|---|---|---|---|---|---|
| **At 1 January 2017** | **9.0** | **7.6** | - | **3.9** | **20.5** |
| Additions | 1.3 | 1.0 | - | 0.1 | 2.4 |
| Business combinations, note 4 | 0.3 | 0.1 | - | 0.2 | 0.6 |
| Used | (2.1) | (0.2) | - | (2.2) | (4.5) |
| Release | (0.6) | (0.2) | - | (0.5) | (1.3) |
| **At 31 December 2017** | **7.9** | **8.3** | **-** | **1.5** | **17.7** |
| | | | | | |
| **At 1 January 2016** | **6.5** | **6.4** | **2.0** | **1.0** | **15.9** |
| Additions | 2.7 | 1.5 | - | 2.3 | 6.5 |
| Business combinations, note 4 | 1.4 | 0.1 | - | 8.0 | 9.5 |
| Used | (0.6) | (0.4) | (2.0) | (4.8) | (7.8) |
| Release | (1.0) | 0.0 | - | (2.6) | (3.6) |
| **At 31 December 2016** | **9.0** | **7.6** | **-** | **3.9** | **20.5** |

*) Including the provision for early retirement rights, which has increased to EUR 5.0 million at 31 December 2017 (31 December 2016: EUR 4.0 million).

| Analysis of total provisions | 2017 | 2016 |
|---|---|---|
| Current | 9.1 | 13.1 |
| Non-current | 8.6 | 7.4 |
| | 17.7 | 20.5 |

Specification of major items in provisions:

| Nature of obligation for 2017 | Country | Maturity | Likelihood | Amount |
|---|---|---|---|---|
| Guarantee | Netherlands | Dynamic | Dynamic | 4.3 |
| Guarantee | US | Dynamic | Dynamic | 1.2 |
| Guarantee | Denmark | Dynamic | Dynamic | 1.1 |

| Nature of obligation for 2016 | Country | Maturity | Likelihood | Amount |
|---|---|---|---|---|
| Guarantee | Netherlands | Dynamic | Dynamic | 4.8 |
| Guarantee | US | Dynamic | Dynamic | 1.1 |
| Guarantee | Denmark | Dynamic | Dynamic | 0.8 |

### Guarantee commitments

The provisions for guarantee commitments reflect the estimated costs of replacement and free-of-charge services that will be incurred by the Company with respect to products sold. The Company expects the provisions to be utilized mainly within the next year.

### Pension commitments

Refer to note 21.

### Refocusing provisions

In the beginning of the year 2014 the refocusing plan of becoming simpler, smarter and faster was launched. The plan's objective was to serve customers' needs more effectively and to reduce the annual cost base by EUR 20-25 million over the course of 2014 and 2015. The refocusing plan was successfully closed in 2015.

## 21 Post-employment benefits

The Group maintains various pension plans covering the majority of its employees.

The Company's pension costs for all employees for 2017 were EUR 21.9 million (2016: EUR 19.9 million). This includes defined contribution plans for EUR 13.0 million (2016: EUR 11.6 million), as well as a pension plan based on multi-employer union plan for EUR 8.9 million (2016: EUR 8.3 million).

The Company's employees in the Netherlands, 1,471 FTEs (2016: 1,443), participate in a multi-employer union plan ("Bedrijfstakpensioenfonds Metalektro", PME). This plan is determined in accordance with the collective bargaining agreements effective for the industry in which Marel operates. This pension plan is treated as a defined contribution scheme based on the following grounds:

- It is an industry-wide pension fund, used by the Company in common with other legal entities.
- Under the regulations of the PME, the only obligation for the affiliated businesses towards the PME is to pay the annual premium liability.
- The affiliated businesses are under no obligation whatsoever to pay off any deficits the PME may incur, nor have they any claim to any potential surpluses.

The multi-employer plan covers approximately 1,300 companies and 145,000 contributing members. The plan monitors its risks on a global basis, not by company or employee, and is subject to regulation by Dutch governmental authorities. By law ("the Dutch Pension Act"), a multi-employer union plan must be monitored against specific criteria, including the coverage ratio of the plan's assets to its obligations. This coverage ratio must exceed 104.3 percent for the total plan. Every company participating in a Dutch multi-employer union plan contributes a premium calculated as a percentage of its total pensionable wages and salaries, with each company subject to the same percentage contribution rate.

The Company's net periodic pension cost for this multi-employer plan for any period is the amount of the required contribution for that period.

The coverage ratio of the multi-employer plan increased to 100.1 percent as per 31 December 2017 (31 December 2016: 91.80). The increase is caused by developments in the financial markets and the average interest rate. The coverage ratio is below the legally required level of 104.3. The "Recovery Plan", which was approved by the board of the pension fund on 25 June 2015, indicates that the coverage ratio will increase within 12 years to 121.2%.

In 2018 the pension premium will be 23.0 percent of the total pensionable salaries (2017: 22.9%), in accordance with the articles of association of the Pension Fund. The coverage ratio is calculated by dividing the fund's capital by the total sum of pension liabilities and is based on actual market interest.

## 22 Financial instruments and risks

### Financial risk factors

This note presents information about the Group's exposure to each of the below mentioned risks, the Group's objectives, policies and processes for measuring and managing the risk. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

### Risk management framework

The main financial risks faced by Marel relate to liquidity risk and market risk (comprising interest rate risk, currency risk, price risk and credit risk). Risk management is carried out by a central treasury department (Group Treasury) under policies and with instruments approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group´s financial performance. The Group uses derivative financial instruments to hedge certain risk exposures and does not enter into financial contracts for speculative purposes.

### (a) Foreign exchange risk

The Group operates internationally and is exposed to currency risk arising from mainly the USD and ISK, primarily with respect to the EUR, as the EUR is the Group's reporting currency. Generally Marel maintains a good natural hedge in its operations with a good match between revenue and cost in most currencies although only a fraction of a percentage of revenues is denominated in ISK, while around 8.50% (2016: 7.64%) of costs is in ISK. Financial exposure is hedged in accordance with the Group's general policy and within set limits. The Group monitors foreign exchange risk arising from commercial transactions, recognized assets and liabilities (transaction risk) that are determined in a currency other than the entity's functional currency.

Derivative hedging is applied if the exposure is outside of the risk tolerance band on a consolidated basis. Currently all exposures are within risk tolerance and the Group has no FX derivatives in place.

Currency exposure arising from net assets of the Group's major foreign operations (translation risk) is managed primarily through borrowings denominated in the relevant foreign currencies as the policy is to apply natural exchange rate hedging where possible. Economic risk is defined as the extent to which currency fluctuations can alter a company's future operating cash flows, that is future revenues and costs. Economic risk is not hedged.

The year end and average rates used for the main currencies mentioned above are:

| | Year-end rate 2017 | Average rate 2017 | Year-end rate 2016 | Average rate 2016 |
|---|---|---|---|---|
| EUR/USD | 1.19 | 1.13 | 1.05 | 1.11 |
| EUR/ISK | 125.03 | 120.68 | 119.38 | 134.49 |

The following table details the Group's sensitivity of transaction and translation risk to a 10% increase and decrease in the EUR against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period-end for a 10% change in foreign currency rates.

The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit or loss or Equity where the EUR strengthens 10% against the relevant currency. For a 10% weakening of the EUR against the relevant currency, there would be a comparable impact on the profit or loss or Equity, and the balances below would be opposite.

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | USD impact | ISK impact | USD impact | ISK impact |
| Profit or (loss) | (2.0) | 0.8 | (2.6) | 0.7 |
| Equity | 0.0 | 0.0 | - | - |

| Liabilities in currency recorded in EUR in 2017 | Finance lease liabilities | Capitalised finance charges | Embedded derivative | Bank borrowings | Total |
|---|---|---|---|---|---|
| Liabilities in EUR | 0.0 | (10.1) | (3.0) | 346.0 | 332.9 |
| Liabilities in USD | 0.0 | (1.8) | 0.0 | 63.3 | 61.5 |
| Liabilities in other currencies | 0.2 | 0.0 | 0.0 | 2.3 | 2.5 |
| | **0.2** | **(11.9)** | **(3.0)** | **411.6** | **396.9** |
| Current liabilities | 0.0 | 3.6 | 1.0 | (30.8) | (26.2) |
| | **0.2** | **(8.3)** | **(2.0)** | **380.8** | **370.7** |

| Liabilities in currency recorded in EUR in 2016 | Finance lease liabilities | Capitalised finance charges | Embedded derivative | Bank borrowings | Total |
|---|---|---|---|---|---|
| Liabilities in EUR | - | (11.3) | (3.6) | 364.9 | 350.0 |
| Liabilities in USD | - | (2.4) | - | 100.5 | 98.1 |
| Liabilities in other currencies | 0.0 | - | - | 1.0 | 1.0 |
| | **0.0** | **(13.7)** | **(3.6)** | **466.4** | **449.1** |
| Current liabilities | - | 4.7 | 1.2 | (30.0) | (24.1) |

### (b) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk on 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. The risk is managed by maintaining a mix between fixed and floating interest rate on borrowings. Generally the Group raises long term borrowings and pays a floating interest rate. To hedge the resulting cash flow interest rate risk the Group uses interest rate swaps, where it pays a fixed interest rate and receives a floating interest rate. The floating rates are fixed on a quarterly basis. The Group adopts a policy of ensuring that between 50 – 70% of its exposure to changes in interest rates on core debt is hedged with an interest rate swap with a maximum maturity of 5 years. Currently around 39% (2016: 36%) of the core debt has floating interest rates and the rest is fixed. As at reporting date a total of EUR 248.7 million (2016: EUR 298.0 million) floating rate liabilities were swapped into fixed interest rates. The weighted average fixed rate of the interest swaps currently is 0.48% (2016: 0.50%).

In 2008 the Group started applying Cash flow hedge accounting to hedge the variability in the interest cash outflows of the 3 months EURIBOR/LIBOR Senior Secured Floating Rate Notes.

Throughout the year 2017 as well as per year end the cash flow hedge accounting relationships were effective. The amounts deferred in Equity at year-end are expected to affect interest costs within the coming 3 years.

At year-end 2017, if EURIBOR interest rates had been 25 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been EUR 0.4 million (2016: EUR 0.3 million) lower/higher.

At year-end 2017, if US LIBOR interest rates had been 25 basis points higher/lower, with all other variables held constant, post-tax profit for the year would have been EUR 0.0 million (2016: EUR 0.1 million) lower/higher.

Among the actions taken to monitor the interest rate risk are stress tests to establish sensitivity to possible movements in rates and how they might affect the Group's results.

### (c) Capital Management

The Board of Directors' policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board monitors on leverage, defined as Net Debt divided by EBITDA, as well as on the return on capital, which the Group defines as result from operations divided by total Equity. The Board also monitors the level of dividends to ordinary shareholders.

At present employees will hold 1.34% (2016: 1.20%) of the shares, assuming that all outstanding stock options are vested and / or are executed.

The Board seeks to maintain a balance between the higher returns on equity that might be possible with higher levels of borrowings and the advantages and security of a sound capital position. The Group uses the leverage ratio in their approach to capital management.

The Group's debt to adjusted capital ratio at the end of the reporting period was as follows:

| | 2017 | 2016 |
|---|---|---|
| Total borrowings | 396.9 | 449.1 |
| Cash and cash equivalents | (31.9) | (45.5) |
| **Net Interest Bearing Debt** | **365.0** | **403.6** |
| | | |
| Total Equity | 541.9 | 525.6 |
| Hedge Reserve | (0.6) | 0.8 |
| **Adjusted Capital** | **541.3** | **526.4** |
| | | |
| Debt to adjusted capital ratio | 0.67 | 0.77 |

From time to time the Group purchases its own shares in the market. Primarily the shares are intended to be used for issuing shares under the Group's stock option plans. The timing of these purchases depends on the requirement to settle employee's stock option exercises. Buy and sell decisions are taken by the Board of Directors. Based on a motion approved in the Annual General Meeting of shareholders, the Board of Directors can acquire up to 10% of its own shares at a price which is not higher than 10% over and not lower than 10% under the average price of shares in the Company for the two weeks immediately preceding the acquisition.

Secondarily, shares are intended to be used as payment for potential future acquisitions, per the Company's announcement on 29 April 2015.

### (d) Insurance

The Group maintains global and local insurance programs. The coverage comprises property damage, business interruption, general and product liability, marine cargo/mounting, directors' and officers' liability, employers practice liability, business travel and accident. The Group believes that its current insurance coverage is adequate.

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. The credit quality of the customer is assessed, taking into account its financial position, past experience and other factors. Each customer has a set credit limit and the utilization of the credit limit is regularly monitored.

### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was:

| | 2017 | 2016 |
|---|---|---|
| Trade receivables | 132.9 | 115.5 |
| Other receivables and prepayments | 46.6 | 32.7 |
| Cash and cash equivalents | 31.9 | 45.5 |
| | **211.4** | **193.7** |

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties (refer to note14).

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 are not delivered until payments are secured. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables (refer to note 14).

The Group has banking relations with a diversified set of financial institutions around the world. The Group has policies that limit the amount of credit exposure to any one financial institution and has International Swaps and Derivatives Association agreements in place with counterparties in all derivative transactions.

### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Prudent liquidity risk management implies maintaining sufficient cash and committed credit facilities to give reasonable operating headroom. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by maintaining availability under committed credit lines. The Group has EUR 325.0 million of committed ancillary facilities, which can be used both as a revolver and to issue guarantees for down payments. At year end the Group had drawn EUR 133.0 million (2016: EUR 52.0 million) on the revolver, issued EUR 33.0 million (2016: EUR 28.0 million) of guarantees under the facility and allocated EUR 7.2 million to the Group's cash pool (2016: EUR 0.0 million), therefore the total usage is EUR 174.7 million (2016: EUR 80.0 million), leaving a headroom of EUR 151.8 million (2016: EUR 145.0 million). All facilities are subject to operational and Consolidated Statement of Financial Position covenants (interest cover and leverage). At the end of 2017 there is sufficient headroom.

Cash flow forecasts are done at the local levels and monitored by Group Treasury. Group liquidity reports are viewed by management on a weekly basis. The Group has a cross border notional cash pool with the aim of making better use of the Group cash position and to further decrease the amount of idle cash.

The table below analyzes cash outflows per maturity group based on the remaining period at reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| At 31 December 2017 | Less than 1 year | Between 1 and 5 years | Over 5 years |
|---|---|---|---|
| Borrowings | 26.2 | 370.7 | - |
| Interest on borrowings | 7.1 | 23.8 | - |
| Finance lease liabilities | - | - | - |
| Trade and other payables | 195.9 | - | - |
| Interest rate swaps | 0.8 | 1.8 | - |
| | **230.0** | **396.3** | **-** |
| **At 31 December 2016** | | | |
| Borrowings | 24.1 | 424.0 | 1.0 |
| Interest on borrowings | 12.5 | 23.6 | - |
| Finance lease liabilities | - | 0.0 | - |
| Trade and other payables | 168.9 | - | - |
| Interest rate swaps | 1.3 | 3.1 | - |
| | **206.8** | **450.8** | **1.0** |

In May 2017, Marel finalized an extension and amendment of its long term financing at favorable terms and conditions reflecting its financial strength and current market conditions The Group has a 640 EUR million equivalents facilities agreement with seven international banks, led by ING bank, Rabobank and ABN AMRO. The terms and conditions are generally in line with Loan Market Association corporate standards. It is an all senior facility, which matures in 2022.

The key elements of the financing are:

- A five-year all senior loan and revolver, consisting of a EUR 243 million and a USD 75 million term loan and EUR 325 million multi-currency revolving credit facility, all with final maturity in May 2022.
- Initial interest terms are EURIBOR/LIBOR + 185 bps, which will vary in line with Marel's leverage ratio (Net debt/EBITDA) at the end of each quarter.

The Group has a financing structure which can accommodate the Group's financing requirements until 2022 with USD and EUR borrowings matching the Group's exposure in these currencies to a large extent.

The facility has an embedded 0% floor in the EURIBOR and LIBOR rates. At the date of utilization of the loans (5 May 2017) the 5 year EURIBOR curve was negative and consequently the floor has intrinsic value at the date of inception. In accordance to IAS 39 Financial Instruments, Marel has separated the embedded derivative from the facility and reports the intrinsic value on a fair value basis as a financial derivative on the Consolidated Statement of Financial Position.

### Fair value estimation

The Group generally does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. The only fair value instrument accounted for in the profit and loss statement is the 0% floor embedded in the EUR term loan and revolving facility. During 2017 the floor results in a profit of EUR 1.0 million in finance cost. If 3 months EURIBOR restores to values above 0% the result would be a profit EUR 2.6 million.

### Fair value versus carrying amount

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

Level 1:
The fair value of financial instruments traded in an active market, such as trading and available-for-sale securities, is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

Level 2:
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 reporting date. These valuation techniques are based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Derivatives are valued by an independent third party based on market conditions, which takes into account Credit Value Adjustment and Debit Value Adjustment corrections.

Level 3:
Valuation techniques using significant unobservable inputs.

The fair value of borrowings equals their carrying amount, as the impact of discounting is not significant and is classified as Level 2 in the fair value hierarchy. The fair values are based on cash flows discounted using a rate based on the borrowings rate of 2.16% (2016: 3.16%).
The weighted average interest rate on borrowings in 2017, including effect of floating to fixed interest rates swaps is 2.16% (2016: 3.16%).

The fair value of the finance lease liabilities equals its carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the average interest rate of 4.0% (2016: 4.0%).

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Consolidated Statement of Financial Position, are as follows:

| 2017 | Cash flow-hedging instruments | Loans & receivables | Other financial liabilities | Total carrying amount | Fair Value |
|---|---|---|---|---|---|
| Cash and cash equivalents | - | 31.9 | - | 31.9 | 31.9 |
| Receivables | - | 179.5 | - | 179.5 | 179.5 |
| | **-** | **211.4** | **-** | **211.4** | **211.4** |
| Interest rate swaps used for hedging | (1.8) | - | - | (1.8) | (1.8) |
| Bank loans | - | - | (396.7) | (396.7) | (396.7) |
| Finance lease liabilities | - | - | (0.2) | (0.2) | (0.2) |
| Trade and other payables | | - | (199.5) | (199.5) | (199.5) |
| | **(1.8)** | **-** | **(596.4)** | **(598.2)** | **(598.2)** |
| **2016** | | | | | |
| Cash and cash equivalents | - | 45.5 | - | 45.5 | 45.5 |
| Receivables | - | 148.2 | - | 148.2 | 148.2 |
| | **-** | **193.7** | **-** | **193.7** | **193.7** |
| Interest rate swaps used for hedging | (4.4) | - | - | (4.4) | (4.4) |
| Bank loans | - | - | (449.1) | (449.1) | (449.1) |
| Finance lease liabilities | - | - | (0.0) | (0.0) | (0.0) |
| Trade and other payables | - | - | (168.9) | (168.9) | (168.9) |
| | **(4.4)** | **-** | **(618.0)** | **(622.4)** | **(622.4)** |

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized:

| Derivatives liabilities held for risk management | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| At 31 December 2017 | - | 1.8 | - | 1.8 |
| At 31 December 2016 | - | 4.4 | - | 4.4 |

No financial instruments were transferred from Level 1 to Level 2, or from Level 2 to Level 3 of the fair value hierarchy.

### Interest-rate swap

To protect Marel from fluctuations in Euribor-EUR-Reuters/Libor-BBA ("British Bankers Association") and in accordance with the interest hedge policy Marel has entered into interest rate swaps (the hedging instruments) to receive floating interest and to pay fixed interest.
This is in line with Marel's risk management policy to have 50 - 70% of core debt fixed for 3 – 5 years. The notional principal amount of the outstanding active interest rate swap contracts at 31 December 2017 was EUR 248.7 million (31 December 2016: EUR 298.2 million).

### FX Forwards

With the acquisitions of MPS in January 2016, Marel acquired FX forward contracts with principal of approximately EUR 2.9 million and market to market value of EUR 0.05 million. The forward swaps were used for hedging purposes of projects in USD. These contracts will be held to maturity and Marel's currency risk policy will be applied for future transactions.

| 2017 | Currency | Principal | Maturity | Interest % |
|---|---|---|---|---|
| Interest rate SWAP | EUR | 50.0 | 2020 | -0.1% |
| Interest rate SWAP | EUR | 40.0 | 2018 | 0.2% |
| Interest rate SWAP | EUR | 50.0 | 2020 | -0.1% |
| Interest rate SWAP | EUR | 50.0 | 2020 | -0.1% |
| Interest rate SWAP | USD | 10.0 | 2020 | 1.3% |
| Interest rate SWAP | USD | 60.0 | 2018 | 2.2% |
| Forward starting interest rate SWAP | EUR | 80.0 | 2022 | 0.4% |
| Forward starting interest rate SWAP | EUR | 40.0 | 2022 | 0.4% |
| Forward starting interest rate SWAP | USD | 60.0 | 2020 | 1.6% |
| Forward starting interest rate SWAP | USD | 50.0 | 2022 | 2.3% |
| Embedded floor (0,00% cap on interest rates in financing agreements) | EUR | 346.0 | 2022 | 0.0% |
| FX EUR DKK interest rate SWAP (EUR fixed, DKK floating) | EUR | 1.1 | 2027 | 5.2% |

| 2016 | Currency | Principal | Maturity | Interest % |
|---|---|---|---|---|
| Interest rate SWAP | USD | 55.0 | 2017 | 2.4% |
| Interest rate SWAP | EUR | 6.0 | 2017 | 0.8% |
| Interest rate SWAP | EUR | 25.0 | 2017 | 0.1% |
| Interest rate SWAP | EUR | 55.0 | 2018 | 0.2% |
| Forward starting interest rate SWAP | USD | 60.0 | 2018 | 2.2% |
| Embedded floor (0,00% cap on interest rates in financing agreements) | EUR | 445.0 | 2020 | 0.0% |
| Interest rate SWAP | USD | 10.0 | 2020 | 1.3% |
| Interest rate SWAP | EUR | 150.0 | 2020 | -0.1% |
| Forward starting interest rate SWAP | USD | 60.0 | 2020 | 1.5% |
| FX EUR DKK interest rate SWAP (EUR fixed, DKK floating) | EUR | 1.1 | 2027 | 5.2% |

## 23 Trade and other payables

| | 2017 | 2016 |
|---|---|---|
| Trade payables | 90.0 | 73.0 |
| Accruals | 7.6 | 9.0 |
| Personnel payables | 48.6 | 43.8 |
| Other payables | 53.3 | 43.1 |
| **Total Trade and other payables** | **199.5** | **168.9** |
| less non-current portion | 3.6 | - |
| **Current portion of Trade and other payables** | **195.9** | **168.9** |

Information about the Group's exposure to currency and liquidity risks is included in note 22.

## 24 Operating leases, commitments and insurance

### Operating lease commitments

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are as follows:

| | 2017 | 2016 |
|---|---|---|
| Less than 1 year | 8.3 | 8.1 |
| Between 1 and 5 years | 16.6 | 15.5 |
| More than 5 years | 6.0 | 8.5 |
| **Total operational lease liabilities** | **30.9** | **32.1** |

During the year an amount of EUR 9.0 million was recognized as an expense in the Consolidated Statement of Income in respect of operating leases (2016: EUR 9.5 million).

### Commitments and Insurance

The Group has covered Business Interruption Risks with an insurance policy underwritten by an independent insurance company for a maximum period of 24 months for Marel Stork Poultry Processing B.V. and 18 months for all other Marel entities. The insurance benefits for Business Interruption amount to EUR 631 million for 2017 (2016: EUR 628 million) for the whole Group. The Group Insurance value of buildings amounts to EUR 130 million (2016: EUR 147 million), production machinery and equipment including software and office equipment amount to EUR 147 million (2016: EUR 160 million) and inventories to EUR 142 million (2016: EUR 142 million). Currently there are no major differences between appraisal value and insured value.

## 25 Contingencies

### Contingent liabilities

At 31 December 2017 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 50.3 million (31 December 2016: EUR 42.6 million) to third parties.

### Legal proceedings

As part of doing business and acquisitions the Group is involved in claims and litigations, under such indemnities and guarantees. These claims are pending and all are contested. Provisions are recognized when an outflow of economic benefits for settlement is probable and the amount can be estimated reliably. It should be understood that, in light of possible future developments, such as (a) potential additional lawsuits, (b) possible future settlements, and (c) rulings or judgments in pending lawsuits, certain cases may result in additional liabilities and related costs.

At this point in time, we cannot estimate any additional amount of loss or range of loss in excess of the recorded amounts with sufficient certainty to allow such amount or range of amounts to be meaningful. Moreover, if and to the extent that the contingent liabilities materialize, they are often resolved over a number of years and the timing of such payments cannot be predicted with confidence. While the outcome of said cases, claims and disputes cannot be predicted with certainty, we believe, based upon legal advice and information received, that the final outcome will not materially affect our consolidated financial position but could be material to our results of operations or cash flows in any one accounting period.

### Environmental remediation

The Company and its subsidiaries are subject to environmental laws and regulations. Under these laws, the Company and/or its subsidiaries may be required to remediate the effects of certain chemicals on the environment.

## 26 Related party transactions and information on remuneration

At 31 December 2017 and 2016 there are no loans to the members of the Board of Directors and the CEO. In addition, there were no transactions carried out (purchases of goods and services) between the Group and members of the Board of Directors nor the CEO in the year ended 31 December 2017 and 2016.

| **Board of Directors' fee for the year 2017 and shares at year-end (EUR 1,000)** | Board fee | Pension contribu-tion[1] | Stock options[2] | Bought shares acc. to stock options[2] | Shares at year-end [2] |
|---|---|---|---|---|---|
| Ásthildur Margrét Otharsdóttir , Chairman | 116 | 11 | - | - | 32 |
| Arnar Þór Másson, Vice Chairman | 81 | 8 | - | - | - |
| Ann Elizabeth Savage, Board Member | 45 | 4 | - | - | - |
| Ástvaldur Jóhannsson, Board Member | 45 | 4 | - | - | - |
| Helgi Magnússon, Board Member | 45 | 4 | - | - | 2,779 |
| Margrét Jónsdóttir, Board Member | 45 | 4 | - | - | 195 [3] |
| Ólafur S. Guðmundsson, Board Member | 44 | 4 | - | - | 1,705 |
| **Board of Directors' fee for the year 2016 and shares at year-end (EUR 1,000)** | | | | | |
| Ásthildur Margrét Otharsdóttir , Chairman | 107 | 9 | - | - | 32 |
| Arnar Þór Másson, Vice Chairman | 74 | 6 | - | - | - |
| Ann Elizabeth Savage, Board Member | 41 | 3 | - | - | - |
| Ástvaldur Jóhannsson, Board Member | 41 | 3 | - | - | - |
| Helgi Magnússon, Board Member | 41 | 3 | - | - | 3,779 |
| Margrét Jónsdóttir, Board Member | 41 | 3 | - | - | 193 [3] |
| Ólafur S. Guðmundsson, Board Member | 33 | 3 | - | - | 1,705 |

| **Key management remuneration 2017 (EUR 1,000)** | Salary and benefits | Share based benefits | Incentive payments | Pension contribu-tion[1] | Stock options [2] | Bought shares acc. to stock options[2] | Shares at year-end [2] |
|---|---|---|---|---|---|---|---|
| Árni Oddur Þórðarson, Chief Executive Officer | 581 | - | 198 | 83 | 960 | - | 132 [3] |
| Executive Management | 2,838 | 795 | 728 | 309 | 7,645 | 432 | 739 [4] |
| **Key management remuneration 2016 (EUR 1,000)** | | | | | | | |
| Árni Oddur Þórðarson, Chief Executive Officer | 539 | - | 203 | 73 | 360 | - | 132 [3] |
| Executive Management | 3,645 | 552 | 1,093 | 353 | 6,510 | 711 | 63 [4] |

[1] Pension contributions for all board members and the management are part of a defined contribution plan.

[2] Number of shares * 1,000.

[3] Margrét Jónsdóttir is the Managing Director of Operation of Eyrir Invest hf. and Árni Oddur Þórðarson is a major shareholder of Eyrir Invest hf., which on 31 December 2017 held 190,366,838 (2016: 215,366,838) shares in Marel hf. (25.88% (2016: 29.28%)) of total issued shares.

[4] Marel has identified ten executives who have material significance for Marel's operations. This group consists of Chief Financial Officer, Executive Vice President ("EVP") Poultry, EVP Meat, EVP Fish, EVP Commercial, EVP Further Processing, EVP Supply Chain, EVP Human Resources, EVP Strategy and Corporate Development and EVP Innovation. Two of them left the company in March 2017 and May 2017 and two joined in February 2017 and June 2017. In March 2016 two of them left the Company and one joined at the same time. Salaries and benefits include severance settlements to two ex-EVPs which are according to local laws and employment contracts.

| Stock options 2017 | 2017 Number of shares *) | 2017 Average exercise price EUR per share | 2016 Number of shares *) | 2016 Average exercise price EUR per share |
|---|---|---|---|---|
| Árni Oddur Þórðarson, Chief Executive Officer | 360 | 1.902 | 360 | 1.924 |
| | 600 | 2.779 | - | - |
| Ten other Executives | 405 | 1.094 | 885 | 1.079 |
| | 1,800 | 0.923 | 2,025 | 0.944 |
| | 1,600 | 1.464 | 1,800 | 1.485 |
| | 1,440 | 1.902 | 1,800 | 1.924 |
| | 2,400 | 2.779 | - | - |

*) Number of shares * 1,000.

## 27 Subsequent events

No significant events have taken place since the reporting date, 31 December 2017.

## 28 Subsidiaries

The following lists presents the material subsidiaries as per 31 December 2017 representing greater than 2% of either the consolidated Group sales, income from operations or net income (before any intra-group eliminations). All of the entities are fully consolidated in Group financial statements. Companies are listed in alphabetical order of the country of incorporation:

| | Country of Incorporation | Ownership Interest |
|---|---|---|
| Marel Australia Pty. Ltd. | Australia | 100% |
| Marel Brasil Commercial e Industrial Ltda | Brazil | 100% |
| Sulmaq Industrial e Comercial S.A. | Brazil | 100% |
| Marel A/S | Denmark | 100% |
| Butina A/S | Denmark | 100% |
| Marel Salmon A/S | Denmark | 100% |
| Marel France S.A.R.L . | France | 100% |
| Marel GmbH & Co. KG | Germany | 100% |
| Marel Iceland ehf. | Iceland | 100% |
| Marel Holding B.V. | Netherlands | 100% |
| Marel Meat Processing B.V. | Netherlands | 100% |
| Marel Stork Poultry Processing B.V. | Netherlands | 100% |
| Marel Townsend Further Processing B.V. | Netherlands | 100% |
| Marel Water Treatment B.V. | Netherlands | 100% |
| Marel Red Meat Slaughtering B.V. | Netherlands | 100% |
| Marel Meat Service B.V. | Netherlands | 100% |
| Marel Norge AS | Norway | 100% |
| Marel Polska Sp. z.o.o. | Poland | 100% |
| Marel Spain & Portugal S.L. | Portugal | 100% |
| Marel Food Systems LLC | Russia | 100% |
| Marel Slovakia s.r.o. | Slovakia | 100% |
| Marel GB Ltd. | UK | 100% |
| Marel Seattle Inc. | USA | 100% |
| Marel Inc. | USA | 100% |

## 29 Quarterly results (unaudited)

| 2017 | Q1 | Q2 | Q3 | Q4 | Total |
|---|---|---|---|---|---|
| Revenue | 252.5 | 244.0 | 247.0 | 294.7 | 1,038.2 |
| Cost of sales | (153.0) | (147.6) | (153.0) | (177.9) | (631.5) |
| **Gross profit** | **99.5** | **96.4** | **94.0** | **116.8** | **406.7** |
| Selling and marketing expenses | (31.0) | (29.1) | (28.2) | (32.2) | (120.5) |
| Research and development expenses | (13.9) | (14.2) | (13.0) | (16.7) | (57.8) |
| General and administrative expenses | (16.9) | (17.2) | (15.3) | (21.6) | (71.0) |
| Other operating income / (expenses) | - | - | - | - | - |
| **Adjusted result from operations*)** | **37.7** | **35.9** | **37.5** | **46.3** | **157.4** |
| Amortization of acquisition-related (in)tangible assets | (6.2) | (6.3) | (2.2) | (2.4) | (17.1) |
| **Result from operations (EBIT)** | **31.5** | **29.6** | **35.3** | **43.9** | **140.3** |
| Net finance costs | (3.8) | (6.7) | (5.4) | (4.4) | (20.3) |
| **Result before income tax** | **27.7** | **22.9** | **29.9** | **39.5** | **120.0** |
| Income tax | (6.3) | (4.3) | (6.8) | (5.7) | (23.1) |
| **Result for the period** | **21.4** | **18.6** | **23.1** | **33.8** | **96.9** |
| **Result before depreciation & amortization (EBITDA)** | **46.0** | **44.2** | **45.8** | **56.0** | **192.0** |

| 2016 | Q1 | Q2 | Q3 | Q4 | Total |
|---|---|---|---|---|---|
| Revenue | 220.6 | 264.2 | 234.8 | 250.1 | 969.7 |
| Cost of sales | (128.0) | (155.0) | (140.8) | (148.9) | (572.7) |
| **Gross profit** | **92.6** | **109.2** | **94.0** | **101.2** | **397.0** |
| Selling and marketing expenses | (30.5) | (33.9) | (28.1) | (36.0) | (128.5) |
| Research and development expenses | (15.3) | (17.9) | (16.4) | (13.5) | (63.1) |
| General and administrative expenses | (15.8) | (17.7) | (16.1) | (16.6) | (66.2) |
| Other operating income / (expenses) | 0.1 | - | - | 0.1 | 0.2 |
| **Adjusted result from operations*)** | **31.1** | **39.7** | **33.4** | **35.2** | **139.4** |
| Amortization of acquisition-related (in)tangible assets | (4.5) | (6.6) | (6.7) | (6.8) | (24.6) |
| **Result from operations (EBIT)** | **26.6** | **33.1** | **26.7** | **28.4** | **114.8** |
| Net finance costs | (8.9) | (6.8) | (5.8) | (3.9) | (25.4) |
| **Result before income tax** | **17.7** | **26.3** | **20.9** | **24.5** | **89.4** |
| Income tax | (3.9) | (4.3) | (3.6) | (1.8) | (13.6) |
| **Result for the period** | **13.8** | **22.0** | **17.3** | **22.7** | **75.8** |
| **Result before depreciation & amortization (EBITDA)** | **38.2** | **48.4** | **41.5** | **47.3** | **175.4** |

*) Adjusted result from operations: result has been adjusted for amortization of acquisition-related (in)tangible assets.

## 30 Definitions and abbreviations

**BBA**
British Bankers Association

**BPS**
Basis points

**CGU**
Cash Generating Units

**EBIT**
Earnings before interest and tax

**EBITDA**
Earnings before interest, tax, depreciation and amortization

**ECL**
Expected credit loss

**EURIBOR**
Euro Interbank Offered Rates

**FVOCI**
Fair Value Through Other Comprehensive Income

**FVTPL**
Fair Value Through Profit and Loss

**FTE**
Full-time equivalent

**FX**
Foreign exchange

**GAAP**
Generally Accepted Accounting Principles

**IAS**
International Accounting Standard

**IFRIC**
International Financial Reporting Interpretation Committee

**IFRS**
International Financial Reporting Standards

**LIBOR**
London Interbank Offered Rate

**NCI**
Non-Controlling Interest

**OCI**
Other Comprehensive Income

**POC**
Percentage of completion

**SIC**
Standard interpretation committee

**WACC**
Weighted Average Cost of Capital