ANNUAL REPORT 2005

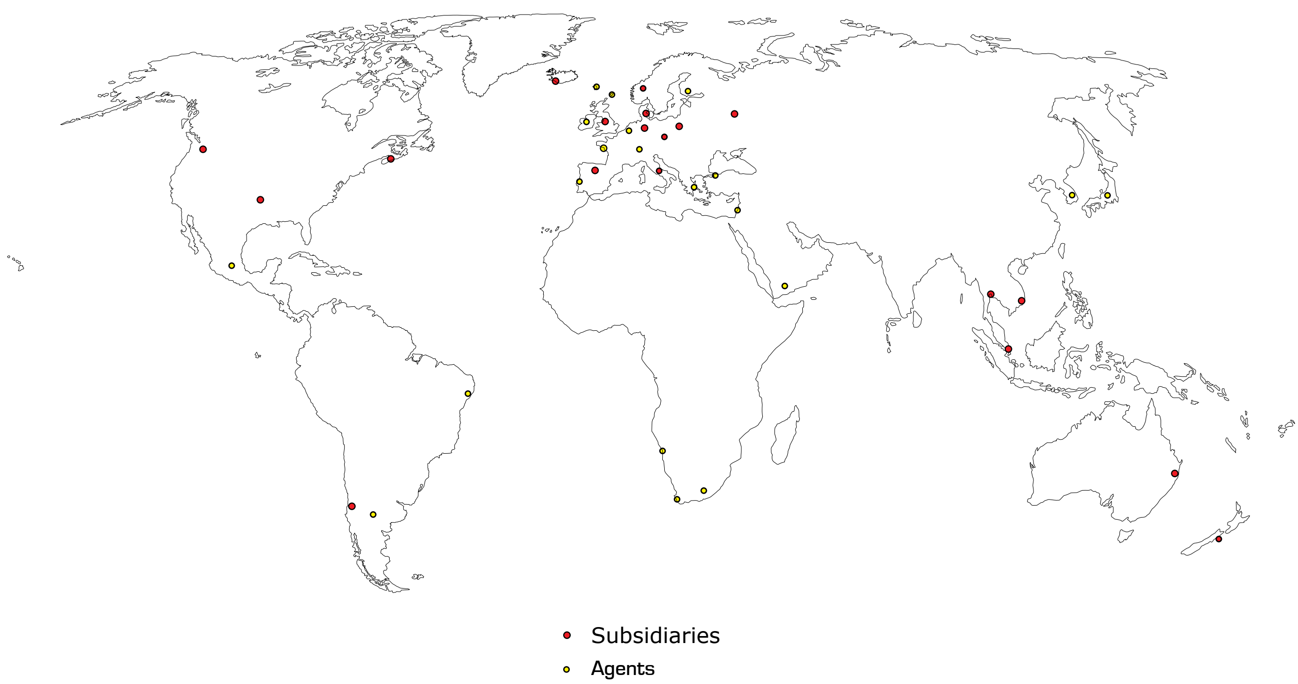
Marel

The Marel Group

The Marel Group comprises two principal companies: Marel and subsidiary Carnitech, along with 15 other subsidiaries in 14 countries and branch offices in four countries. In addition, the Group has a network of over 50 agents and distributors that market, sell and service its products around the world. Over two-thirds of overall sales are achieved through subsidiaries, or directly from Marel or Carnitech.

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

Marel hf, Iceland
Marel Australia, Australia
Marel Chile, Chile
Marel Deutschland, Germany
Marel Canada, Canada
Marel New Zealand, New Zealand
Marel Scandinavia, Denmark
Marel Spain, Spain
Marel UK, England
Marel USA, United States
Marel Russland, Russia
Marel office in Poland, Poland
Marel office in Italy, Italy
Marel Carnitech Thailand, Thailand
Marel Carnitech office in Vietnam, Vietnam
Carnitech A/S, Denmark
Carnitech Norge, Norway
Carnitech US, United States
Carnitech Marel Slovakia, Slovakia
DanTech, Singapore



Fish

The Marel Group has been on the leading edge of the revolution in fish processing innovation both on land and at sea. From raw-material grading and trimming to portioning, grading and packing, the Group consistently implements new technologies into fish processing.

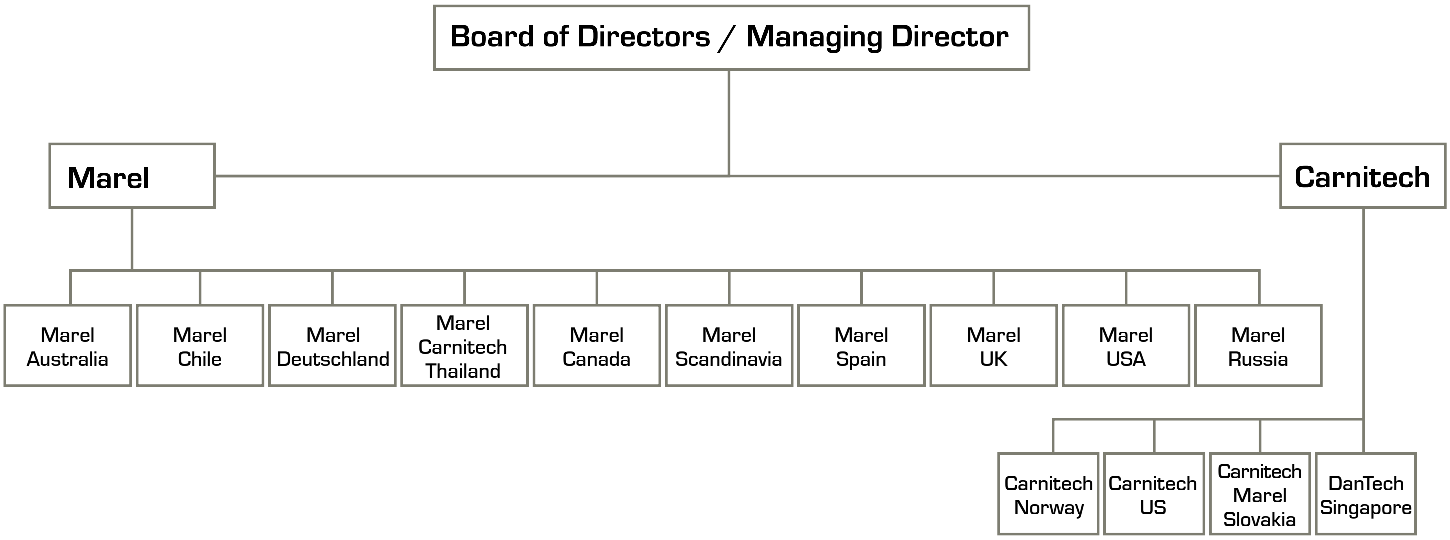
Meat

In recent years, machinery, equipment and new flowline concepts based on innovative Marel Group technologies have generated remarkable advances in meat processing. We provide complete processing solutions that fully utilize raw materials and maximize value-added profits.

Poultry

The Marel Group provides both stand-alone equipment and full systems for chicken, turkey, and duck processing. From simple production flow improvements to large-scale turnkey processing plants, we focus on providing equipment and software that increases yields, reduces labor costs and improves end quality for poultry producers.

Organization



Cooperation

Together, the companies that make up the Partners in Processing group supply a complete range of processing equipment to all sectors of the food processing industry.

We design with flexibility and insight

Marel hf
Annual Report 2005
23rd Operating Year
Annual General Meeting 28th February 2006

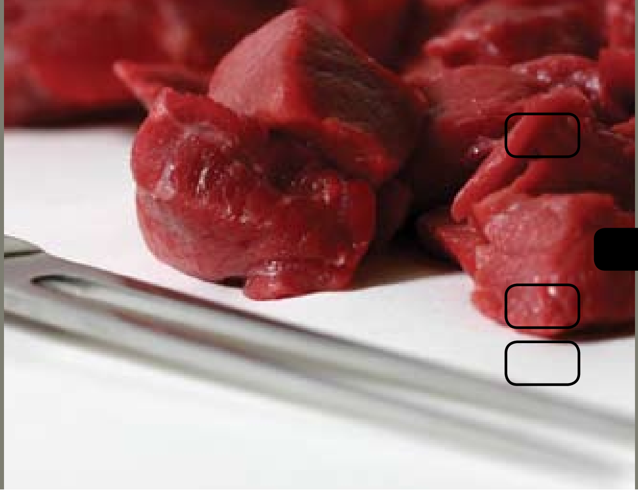
Marel will publish the Financial Statements for 2006 on the following days:
1st quarter: Tuesday 9 May 2006
2nd quarter: Thursday 10 August 2006
3rd quarter: Tuesday 7 November 2006
4th quarter: Tuesday 13 February 2007

The Annual General Meeting is scheduled to be held on Thursday, March 8th, 2007

The Marel Group

Marel hf	Gardabaer	Iceland
Marel Australia PTY LTD	Morningside QLD	Australia
Marel Canada	Dartmouth, NS	Canada
Marel Carnitech Thailand LTD	Bangkok	Thailand
Marel Carnitech Vietnam	Ho Chi Minh City	Vietnam
Marel Chile S.A.	Puerto Montt	Chile
Marel Deutschland GmbH & KG	Osnabrück	Germany
Marel Deutschland GmbH & KG	Bruckmühl	Germany
Marel New Zealand	Woolston	New Zealand
Marel Italy	Rubiera RE	Italy
Marel Poland	Warsaw	Poland
Marel Russland LTD	Moskva	Russia
Marel Scandinavia A/S	Støvring	Denmark
Marel Spain S.L.	Vilagarcia de Arousa	Spain
Marel UK LTD	Bromsgrove	England
Marel USA INC	Lenexa, KS	USA
Arbor Technologies S.A.	Landevant	France
Carnitech A/S	Støvring	Denmark
Carnitech Norge	Ålsund	Norway
Carnitech US	Seattle	USA
Carnitech Marel Slovakia	Nitra	Slovakia
DanTech PTE LTD	Singapore	Singapore

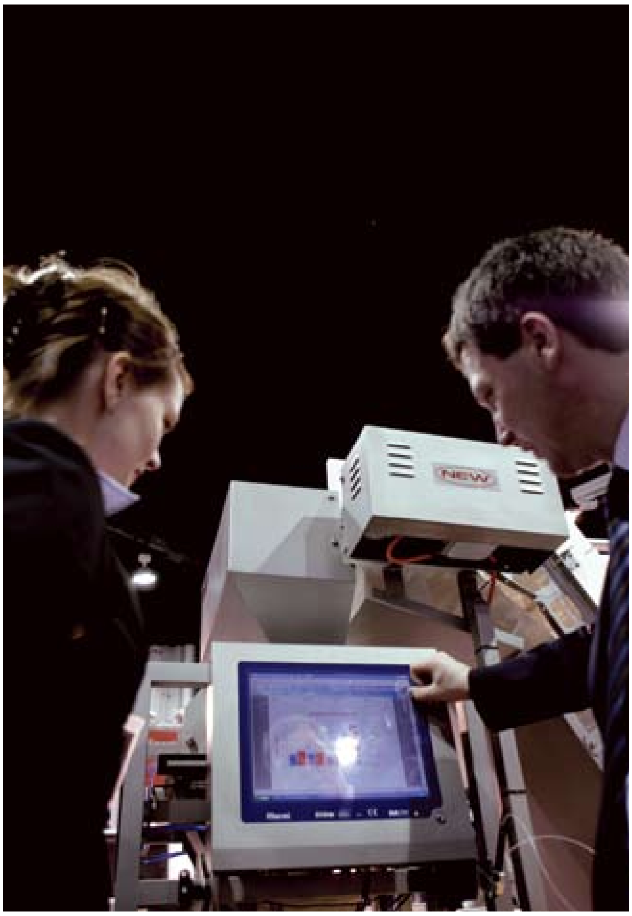
INDEX



THE MARPL GROUP

Our vision is to be an international leader in developing and marketing high-tech processing equipment for the food processing industry in order to increase the productivity of our customers.

Our approach is simple. Innovative designs, high-tech development, quality craftsmanship and excellent installation and service . . . all combined for one purpose: to deliver higher yields, better working conditions and value-for-money for the world's fish, meat and poultry producers. The result is a healthier bottom line.



Our products cover the entire production process, from primary processing to packing and freezing. The Marel Group designs and manufactures scales, weighing units, conveyor systems, diverse graders, monitoring equipment, trimming and deboning lines and intelligent portioning machines, as well as grinders, mixers, freezers and packing systems.

MPS Production Control Software ties any or all of this equipment together into a seamless whole, which provides real-time information and comprehensive production overviews presented in simple, easy-to-read formats.

To make things even simpler, our solutions are available to customers at fifteen Marel Group subsidiaries located in North and South America, Eurasia, Europe and Oceania. We also operate a network of agents and distributors conveniently situated in some 30 countries around the world.

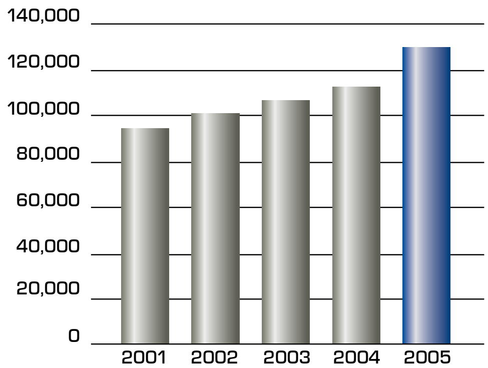
For nine years, we have operated with an ISO 9001 Certification for our quality system, which covers product development, sales, manufacturing and after-sales services.

Quality and reliable products and services that make a big difference. It's as simple as that.

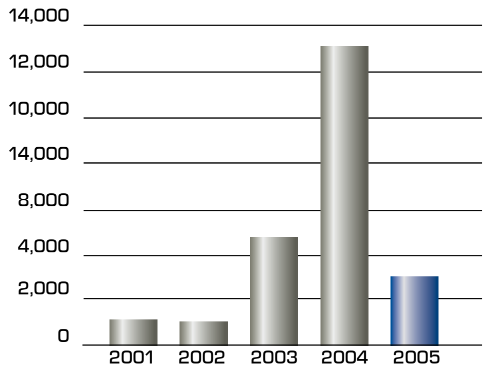
FINANCIAL SUMMARY

- The year 2005 was the next-best operational year in the history of the Marel Group.
- Sales for the year totaled € 129.0 million, an increase of 14.9% from the previous year.
- Profit from operations (EBIT) was € 9.7 million.
- Net profit was € 5.7 million, a decrease of 28% from the year before.
- Net profit per share was 0.0242.
- Working capital from operations was € 12.5 million.

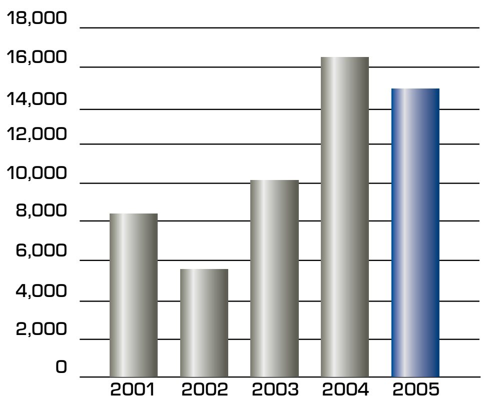
Sales
Thous. €



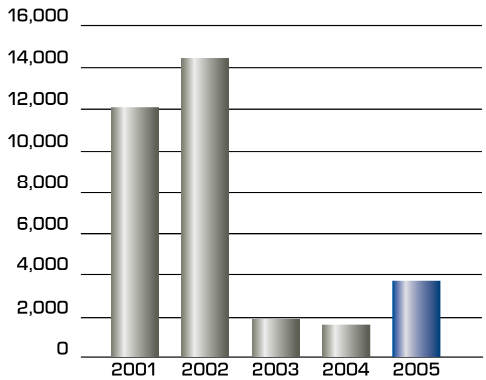
Net cash from operating activities
Thous. €



Operating profit before depreciation, EBITDA
Thous. €



Purchase of property, plant and equipment
Thous. €



CHAIRMAN'S ADDRESS

Marel is at the forefront of the developing and marketing of high-tech applications for the international fish, meat and poultry industries. By using Marel technology, customers have managed to increase productivity significantly with better utilization of raw material and manpower. Marel was formally founded in 1983, but the company's roots lie in a research project conducted at the University of Iceland a few years earlier.

The industry in which Marel operates is interesting. While food processing in general has grown in line with economic growth, further processing has grown faster, and sales of processing solutions have grown twice as fast as economic growth over the last ten years. With hard work and diligence, Marel management and employees have managed to strengthen the company's position during this period and gain an increased market share on this fast-growing market.

Profitable internal and external growth

The company's expansion has been based on profitable internal and external growth through the acquisitions of other companies operating in similar fields. Employees have succeeded in increasing profitability without reducing effort in product development and marketing, which will generate income growth in the coming years.

Marel was one of the first companies in Iceland listed on the Icelandic Stock Exchange, and it is safe to say that the company has enjoyed the goodwill and trust of investors from the start. With the ongoing support of principal shareholders and smaller investors, Marel has succeeded in raising necessary capital to finance acquisitions that have strengthened the company technologically, and significantly improved its access to markets. I had the pleasure of becoming acquainted with the company as a financial consultant during its acquisition of Carnitech in 1997. This merger was fortuitous regarding technological transfer, cooperation in marketing and reducing operational fluctuations. Since then, both Carnitech and Marel have made numerous smaller acquisitions that have proven financially beneficial for the Group. In recent years there has been a significant financial improvement in Marel's operations, and the value of shares has increased considerably.

Changed ownership and new board members

Significant changes have occurred in the ownership of Marel shares in recent years, which have led to changes on the company board. The new board has systematically increased its knowledge of the company as well as the industry as a whole. The board of directors, along with managers, has visited many of the company's customers, first in Iceland where companies in the fish and meat processing industries were visited, followed by trips to interesting clients in Europe and North America. In addition, major fisheries and poultry exhibitions were visited. These trips provided the opportunity to see how technologically advanced Marel is, and it was gratifying to listen to satisfied clients that have succeeded in greatly increasing their productivity and utilization in recent years by using the newest technology from Marel.

Corporate Governance

The board of Marel has approved guidance regarding corporate governance that the Iceland Chamber of Commerce, Icelandic Stock Exchange and Confederation of Icelandic Employers have published for the purpose of improving the credibility of listed companies in relation to the stock market. The board has appointed two committees – auditors' committee and compensation committee – to discuss and prepare matters between board meetings. The auditors' committee has reviewed the internal and external audit of the company, and held meetings with the company's accountants. A new stock option plan was recently approved for a wide group of employees, which is intended to intertwine their interests with those of company shareholders. The stock option plan was a cooperative effort between the compensation committee and the managing director, and was later approved by the board. The board's approval is based on the plan's acceptance at the respective stockholders' meeting, which has the final say regarding the issuance of new shares and determining dividends.

The operating environment in Iceland is unacceptable

In general it is good to operate companies in Iceland, although conditions have worsened considerably in recent years compared with other countries. The government has encouraged major investments in the power-intensive aluminum industry, which has also stimulated major investments in power-intensive industries. A State-backed loan system competes with other banks to make investment and consumption loans to the public. To slow down the economy, the Central Bank of Iceland has chosen to increase interest rates, which has caused the currency exchange rate to increase

Árni Oddur Þórðarson, Chairman

significantly and prompted foreign parties to invest in commercial paper at those interest rates. The high exchange rate constricts export fields while stimulating the consumption of imported consumer goods. At the same time, municipalities have greatly increased taxation on companies to meet their increased operational and wage commitments.

Almost 1000 people work for the Marel Group, about one-third in Iceland. These are generally well-educated employees on good salaries and they, along with the company, have generated considerable value for the society. The board and management of Marel have made the decision that all company growth will occur abroad, and will at the same time endeavor to protect the knowledge center that has been built up in Iceland. The government has discussed setting up a fund and credit-transfer system to increase research work in the country. Experience of such systems is not sufficiently good. It is necessary to create a general system where those who put money into research will bear the cost as well as the future profits. This would be manageable by permitting additional tax deductions for research costs.

The growth will take a place abroad

Marel's board has taken the decision to develop extensive operations in Slovakia. The production facility to be built is similar to that which Marel operates in Garðabær in Iceland, and is scheduled to be in full production by the beginning of 2008, with between 200-300 employees. The first step has been taken with the leasing of a smaller manufacturing facility that has commenced production. In addition, a production facility was acquired in Singapore last year with close to 100 employees, which provides the company with the opportunity to manufacture products in a dollar zone at lower cost. Both of these projects are handled by Carnitech's management in cooperation with the Group's management and board of directors. It is clear that the weight of Iceland in operations will greatly diminish in the coming years, as will the company's exchange-rate risk since today up to one-fourth of the total costs are in Icelandic krona and only a small percentage of the income.

Exciting times ahead

The board and executive management of Marel have worked on a development strategy and an implementation plan for the coming years. This work has involved studying Marel's competitive position and the position of the industry, and has included working closely with domestic and foreign consultants. There is no single party that has a decisive leadership position on the market; instead there are numerous smaller companies. It is apparent that major integration will be occurring in the coming years and that Marel intends to lead it.

Over the next years, 2-4 strategic acquisitions will be made that will expand Marel's unique technological position, and improve access to markets. It is expected that the company's turnover will triple over the next 3-5 years. Integration will be implemented primarily among companies now operating in Europe and North America. A company made larger and stronger by mergers will have a greater ability to guide the development of new markets in East Europe, Asia and South America.

In conclusion, I would like to thank my fellow board members, the managing director and all of Marel's employees for their excellent cooperation and work well done. I thank the shareholders for their considerable support, and customers for their dedication and close cooperation. The coming years will be challenging, and I am convinced that we will succeed in making Marel the global market leader in developing and marketing high-tech equipment in its field.

Árni Oddur Þórðarson
Chairman of the Board

DIRECTOR'S ADDRESS

Operation

The year 2005 was a successful one for the Marel Group, experiencing a strong growth of 15%. Organic growth was driven by strong product development, and strengthening sales and marketing activities. The unfavorable exchange rate of the Icelandic currency resulted in reduced profitability after a record year in 2004. The Group continues to focus on increasing productivity and decreasing production costs by standardizing production and exercising economy in purchasing.

Opportunities for external growth were developed by the acquisition of the company DanTech based in Singapore, a company specializing in IQF freezers with considerable synergy with Carnitech's product line.

Markets

The Group's key markets have been North America and Europe, and in 2005 the Group continued to reinforce operations in these markets. At the same time, effort was focused on market expansion by increasing operations in key growth markets such as Eastern Europe, South America, Asia and Australia where excellent opportunities exist for the Group's solutions. New subsidiary companies where established in Spain and Russia to support these markets.

In 2005 the Group secured major contracts with many of the largest fish, meat and poultry processors in the world. These large contracts for processing solutions are a result of long-term sales and marketing efforts that have delivered strong organic growth in 2005.

Customers

The Marel Group works hand in hand with food processing companies on all continents to produce the best possible solutions for varying processing needs. Among the aquaculture industry, 22 out of the top 23 processors are our customers, and the statistics are similar in whitefish. Out of the top 50 meat and poultry processors in the world, 42 are our customers.

Cooperation with customers is a key issue when developing new solutions, as the Group constantly monitors current and emerging trends and requirements within each industry sector. Our customers must respond to changes in their customer requirements, an ongoing development that the Marel Group monitors diligently. We focus on helping our customers maximize profits by increasing yield, throughput and efficiency.

To improve customer services, the Group offers the Partners in Processing scheme. Intended primarily to utilize the full range of complete solutions offered by the companies comprising the Marel Group, Partners in Processing has successfully resulted in increasing awareness of the Group's full product range.

Product development

One of the primary factors in a successful operation is progressive product development. The Marel Group annually invests 6-7% of revenues in product development to strengthen its leading position on the market and fulfill customer needs. Product standardization was one of the objectives for 2005, and it proved to be a successful factor in increasing efficiency, lowering production costs and strengthening the Group's competitive position.

A host of new products was introduced in 2005. The OptiCut Portioning Machine is designed to portion meat with high accuracy, and is capable of feeding portions directly into trays using another new product, the Quick Loader.

The Sure Track grader was introduced, which uses a revolutionary new grading principle that makes it possible to grade whole salmon at higher capacity and accuracy – integrated in a fully automatic packing solution. Also making its debut was a Computer Vision controlled fresh slicing machine that achieves excellent portioning accuracy.

Carnitech introduced two heavy-duty grinders in 2005, which can handle both fresh and frozen product. The company also launched a new vertical plate freezer. The system is a block-freezing breakthrough: the freezers are designed with automatic unloading, and can be built together as space-saving systems with automatic palletizing of the blocks at the outlet of the line. Carnitech also released the IPS 3000 system, a complete solution for automatic and efficient production of sliced salmon in Party Packs for the retail sector.

Hörður Arnarson, Managing Director

The Group saw an emerging trend for further processing solutions for the meat industry, and established an operation that develops and produces machinery and processing lines for burgers, minced meat, salami and sausage lines. This has fast become a growth sector for part of the Group.

The Group carries out an active patenting strategy to secure its position as a leading developer of high-tech solutions for the processing industries. The strategy is designed to protect the intellectual property and unique solutions created within the Group's product development processes. The Group applied for 15 patents in 2005.

Stock development

One of the main corporate goals is to maximize the Group's stock value. A 32% increase in stock value occurred in 2005, on top of an 80% increase in 2004. The group's stock turnover rate on the Iceland Stock Exchange in 2005 was 47%. Market-making is provided by the MP Investment Bank, which has led to a lower spread and more active trading. The average spread in 2005 was 0.86%.

Paid dividends

The Marel Group paid a dividend of ISK 0.2 per share in 2005. Most of the year's net profit was earmarked to finance the growth of the Group, including future growth through product development and marketing activities. The Marel Group will continue to utilize growth opportunities as they present themselves.

Prospects

The group's order book at the end of 2005 totaled € 16 million, compared with € 19 million at the beginning of the year. Intensive product development and the ongoing work over the years to bolster the company's marketing operations have placed the company in a strong competitive position. Prospects on the company's primary markets are currently satisfactory.

Trends in exchange rates, however, have been unfavorable for the company. The strengthening of the Icelandic krona has increased expenses. Increased oil prices have brought about increased prices of various raw materials, in particular plastics and stainless steel. There are still opportunities to increase productivity and reduce operating expenses with continued emphasis on expanding the company's standardized products, as well as increasing rationalization in purchasing.

Hörður Arnarson
Managing Director

NEWS 2005

JANUARY 2005

Quality Assurance System

The IPE Poultry Show in Atlanta became the venue for Marel's introduction of QVision, quality sampling system. The new QVision system from Marel makes automatic feature measurement and data collection for SPC reporting easier and more reliable than ever before. Using the QVision System - with its fully standardized feature measurement - also allows processors to perform more samplings with fewer QA operators.

FEBRUARY 2005

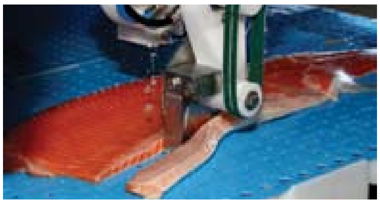
Marel Documentation Team Wins STC Awards

Marel's Documentation & Localization team won awards in the "STC Trans-European Technical Communications Competition 2004" organized by The Society for Technical Communication (STC). The awards were in the following two categories: the Documentation Sets category and in the Hardware/Software Combination Guides category. Lára Hallgrímsdóttir, manager D&L, accepted the awards for her department.

APRIL 2005

Intelligent Salmon Trimming System

Marel unveiled the new Marel ITM, Intelligent Trimming System for salmon at the Brussel Seafood Show in April. The ITM is one of the first robotic machines from Marel and is designed to automatically trim fish fillets into pre-defined shapes or patterns at great speed. Equipped with an advanced vision system that ensures a high precision cut, the ITM makes the entire process – from measuring to trimming – efficient and productive.



APRIL 2005

Vision Grader with 3D Vision

A new Vision Grader that intelligently grades product by shape and weight was introduced in the spring. The Vision Grader uses 3D vision technology to grade products by shape, measuring both geometry and weight of the raw material. The Shape Grader utilizes dynamic weighing and laser vision to measure product features automatically.

AUGUST 2005

Marel Carnitech Thailand Established

In August 2005, Marel and Carnitech strengthened their operation in the Asian market with the official launch of Marel Carnitech Thailand Ltd. Headed by director Chej Mektaveegul, the subsidiary provides sales and services of Marel and Carnitech equipment to Thailand and Vietnam.

SEPTEMBER 2005

Marel Poland

A Marel branch office was established in Warsaw, Poland in September 2005. Sales representative Rafal Bernatowski runs the office and will focus on further servicing the Polish and East-European markets.

SEPTEMBER 2005

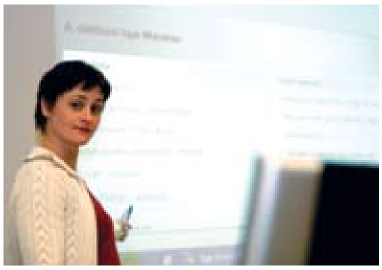
Carnitech Acquires DanTech

In September 2005, DanTech Food Systems Pte. Ltd. became part of the Carnitech group. By merging the activities of Carnitech and DanTech within the field of IQF Freezing & Warm Water Shrimp Processing, our range of equipment and processing lines will be among the very best and comprehensive on the market. Our future activities within these areas will operate under the DanTech Brand, with the head office and main manufacturing located in Singapore.

OCTOBER 2005

Mentor: The Marel Educational Center Established

Marel is highly committed to developing and maintaining employee skills and knowledge to enable them to carry out the company's directive and goals in the best way possible. With this in mind, different areas of training programs within the company were joined under Mentor: the Marel Educational Center, in November 2005. Headed by new recruit Bryndís Ernsdóttir, HR Consultant, the Center offers comprehensive training on a wide range of subjects for both Marel employees and agents.



SEPTEMBER 2005

Marel Italy

Mike Reynolds heads the new Marel branch office in Italy, established in September 2005. Located in Rubiera, the Marel office will conduct sales and service to a growing customer base in Italy.

OCTOBER 2005

New Focus on Carnitech Salmon

To increase focus on our salmon activities, and to further strengthen the position of the group within the salmon industry, Carnitech, in the fall of 2005, announced the merger of all its salmon-related activities into one organization effective January 1, 2006. The new division, Carnitech Salmon, will operate from new premises in Nørre sundby. Carnitech Salmon will in future be in a better position to undertake larger projects combining Carnitech, CP and Marel equipment.

DECEMBER 2005

New Division at Carnitech - Quality Steel

Effective January 1, Carnitech's production of table tops and other stainless elements for the kitchen and catering industry has been placed into an independent division, Quality Steel. The business area is still part of the Carnitech group, but has its own individual identity and logo.

The goal is to increase focus on sales as well as product development and more efficiently increase market share.

QUALITY STEEL

PERFORMANCE IN 2005

We build with skill and expertise

PERFORMANCE IN 2005

The year 2005 was a good one for the Marel Group. Profit for the Marel Group in 2005 totaled € 5.7 million, compared to € 8.0 million the year before. External circumstances were in many ways unfavorable to the Group, in particular the exchange rate of the Icelandic krona. On average 10% fewer Icelandic krona were received for the € in 2005 than in 2004. The same applies to the USD. These two currencies stand for a majority of the sales revenues, while 24% of expenses are in Icelandic kronas, mainly employee wages in Iceland. The year 2005 saw good performance from the Marel Group. Investments and rationalizations carried out in the preceding years weighed heavily in the year's success as in the year before, making up for the unfavorable external conditions the group had to contend with, especially on the foreign-exchange market.

The financial accounting policies have been changed for 2005 and now fully comply with the IFRS, International Financial Reporting Standards. According to EU regulations, companies that are listed on stock exchanges in the European Economic Area are directed to follow the IFRS standards beginning in 2005. Comparative figures for 2004 have been changed in accordance with the numbers presented for 2005.

Operating revenues and expenses in 2005

The Marel Group's operating revenues totaled € 129.0 million, compared to € 112.3 million in the previous year. Operating revenues increased by 14.9%.

Cost of goods sold was € 85.9 million, an increase of 20.5% from the previous year. The contribution margin increased from € 41.0 million in 2004 to € 43.2 million in 2005. As a ratio of sales, the margin has decreased. It was 33.4% in 2005 compared to 36.5% the year before. Other operating expenses, including sales and marketing expenses, increased by 16.7% to € 34.5 million in 2005. As a ratio of operating revenue, the expenses have developed as follows:

	Year 2005	Year 2004
Selling and marketing expenses	12.5%	12.4%
Research and development expenses	6.2%	5.8%
Administrative expenses	8.1%	8.1%

The group will continue to focus on an increased contribution margin in manufacturing in 2006 with standardized products, rationalization in purchasing and increased production in cost-efficient countries.

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

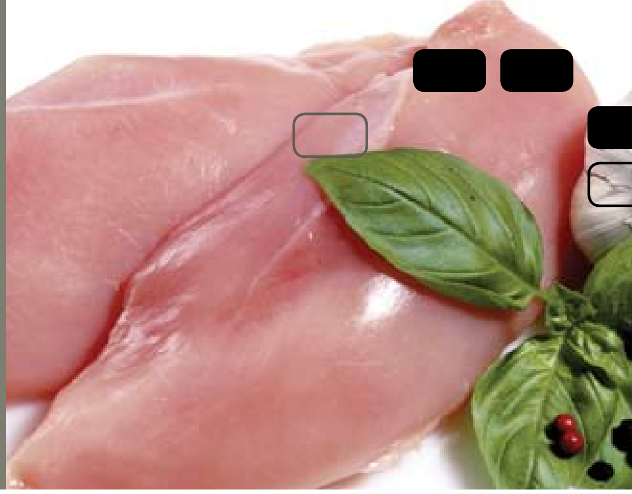
	Year 2005	Year 2004
EBITDA in thousands	14,814	16,527
EBITDA as a % of sales	11.5%	14.7%
EBIT in thousands	9,721	12,066
EBIT as a % of sales	7.5%	10.7%

Net finance costs totaled € 2.6 million, compared with € 1.8 million the previous year. The increase may be traced to increased loans, currency exchange losses and interest rates on over 40% of the company's debts that have been fixed for 3-5 years.

Income tax was € 1.4 million compared to € 2.2 million the year before. Total taxes for the Group were calculated at 19.3% of profits before taxes, compared with 21.7% the previous year. The Group operates in an environment with an income tax rate in the range of 17%-42%.

The Group's operation in € millions:

	Q4 '05	Q3 '05	Q2 '05	Q1 '05	Q4 '04
Sales	34.8	30.4	33.9	29.9	29.1
Operating profit (EBIT)	1.3	2.1	3.3	3.1	2.8
EBIT %	3.7%	7.0%	9.6%	10.2%	9.8%
Net finance expenses	0.6	0.8	0.4	0.9	0.6
Net profit	0.6	1.2	2.1	1.8	1.9
EBITDA	2.8	3.4	4.5	4.2	4.0



Assets and liabilities at the end of 2005

Total assets of the Marel Group at the end of 2005 were booked at € 114.9 million, an increase of about 19.4 million or 20% since the previous New Year. This increase is mainly the result of increases in inventory and accounts receivable.

Inventory increased by about € 4.1 million (19.4%), and accounts receivable by about € 7.7 million, from the previous New Year. These increases in inventory and accounts receivable are explained by an increase in turnover on the one hand, and many deliveries around and after the end of the 4th quarter on the other.

Investment in property, plant and equipment during 2005 was € 3.8 million, compared with € 1.6 million during the same period last year. Part of investment during this period may be attributed to estimated investment for 2004 having been moved forward to 2005.

Liabilities at the end of 2005 totaled € 73.9 million, an increase of € 10.0 million or 15.6%. Long-term liabilities decreased by € 6.0 million and short-term liabilities increased by € 16.0 million. Increased short-term liabilities are mainly due to previously issued bonds becoming payable in the year 2006 and increased payables.

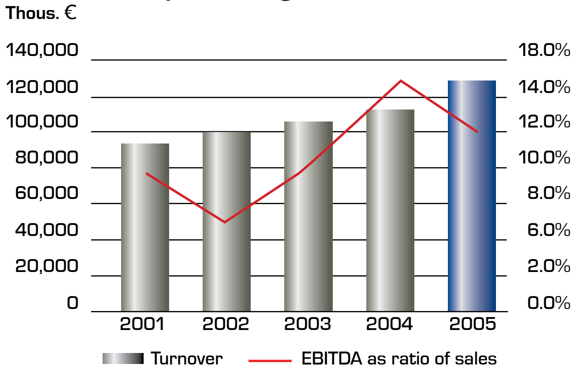
Shareholders' equity at the end of 2005 was € 41.0 million, an increase of € 9.4 million during the year. Following is an itemization of the change in € thousands:

Owners' equity

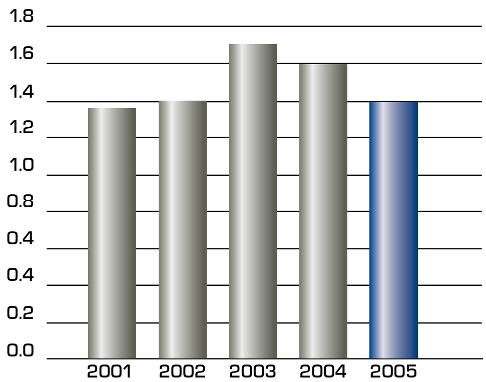
	2005	2004
Profit	5,715	7,984
Own stock sold in excess of bought	3,679	(3,029)
Paid dividend	(590)	(407)
Other	633	809
Increase in shareholders' equity	9,437	5,407

The equity ratio at the end of 2005 was 35.7%, compared to 33.1% the previous year. The current ratio was 1.4, compared to 1.6 at the end of 2004. The ratio of "pure gearing" (interest-bearing liabilities less cash and cash equivalents divided by shareholders´ equity) was 0.98 compared to 1.08 at the end of 2004.

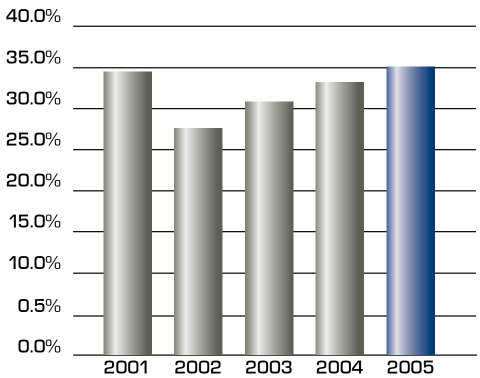
Operating profit before depreciation, EBITDA as a percentage of sales



Current Ratio

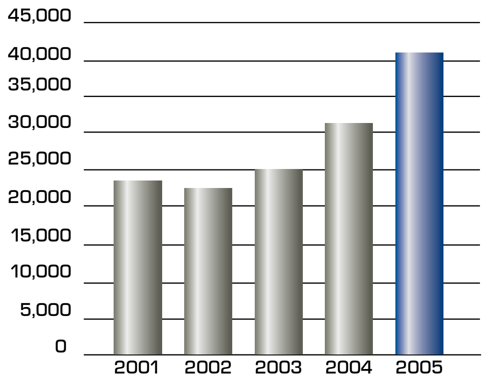


Equity Ratio



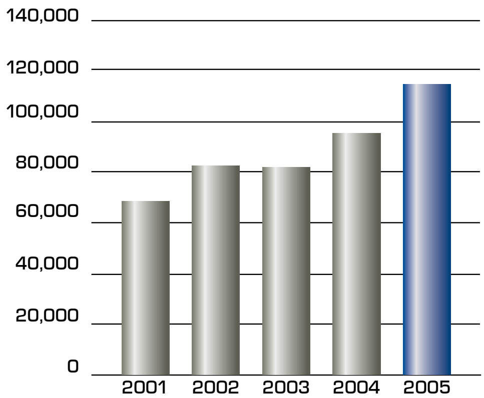
Shareholders' equity

Thous. €



Total assets

Thous. €



Cash Flow

The working capital from operations amounted to € 12.5 million, compared to € 13.5 million in the year 2004. At the end of 2005, cash and cash equivalents were € 3.9 million, a decrease of 0.5 million from the previous year.

OPERATIONAL ACTIVITIES

We sell with focus and passion

SALES & MARKETING

The year 2005 saw the focus in Sales and Marketing directed at strengthening co-operation between the companies comprising the Marel Group, thereby increasing the synergy of global sales and marketing operations. Marel, Carnitech and our subsidiaries can jointly provide a full range of solutions that meet the needs of the fish, meat and poultry processing industries.

During the year, emphasis focused on integrating sales and marketing efforts in the salmon industry. At the beginning of 2006, all work relating to this field merged under one roof: CP Food and Carnitech's salmon operation now operate under the name Carnitech Salmon. In addition, Marel's salmon consultants work closely with the new company. With this move, Carnitech Salmon has become a knowledge center for the salmon industry within the Marel Group. The distribution network has also been integrated to maximize marketing effort and efficiency for the Group's salmon products.

Sales efforts

The group focused on achieving increased productivity and economy in sales and marketing, while simultaneously expanding and strengthening the Group's market reach in 2005. The external environment was generally favorable in 2005. Marel focused efforts on increasing sales of standardized solutions and products, and results fulfilled projections. Investment in larger projects for 2005 was less than projected. The Avian influenza in Asia led to postponement of purchasing by the poultry industry on the continent. Other markets saw an increase in investments by food processing companies, creating an upbeat environment for Marel. The company did well on the European markets, meeting all the goals set for the year. Sales at Carnitech met expectations, primarily due to larger projects that generated good results.

In 2005, Marel continued to provide solutions for fast-food and catering businesses, both to existing and new customers, as the trend for fixed-weight portions for the retail and catering market continue to grow.

The year was a good one for the Group's salmon solutions. Salmon prices rose during the year, which increased optimism and belief in the industry. Major integration by manufacturers called for increased investment and more rationalization, which resulted in further investment. The Group's performance on this market was very successful and the market share increased. The Marel Group has a leading position on this market, and new market activities delivered one of the best years for the Group in the salmon industry.

Investments in meat trimming and deboning solutions from both Marel and Carnitech were less than expected, and many projects were postponed.
Carnitech's new further-processing business sector showed strong performance and was well received by the meat industry. This operation focuses on the development, production, sales, and marketing of standalone machines and complete solutions for burger-, mince-, salami- and sausage lines.

Good response by the industry has accelerated the growth of this sector, which has become one of the more promising new market entries for the group.

Marel continued to develop its distribution network, as sales offices in Russia and Spain were transformed into independent subsidiaries. Sales offices were also founded in Italy and Poland, while Marel Australia opened a branch office, Marel New Zealand.

Carnitech has operated Carnitech Asia in Thailand since 2002. In 2005, Marel took over operations, renamed it Marel Carnitech Thailand and implemented major personnel changes.

Carnitech purchased German company Geba, which manufactures machines to cut salmon slices. The operations and sales department merged with Carnitech, and the product line is sold through the Group's sales network. In addition, Carnitech purchased the company DanTech in Singapore, which manufactures IQF freezers. DanTech is one of the larger manufacturers of IQF freezers in the world, and will strengthen Carnitech's position on the IQF market.

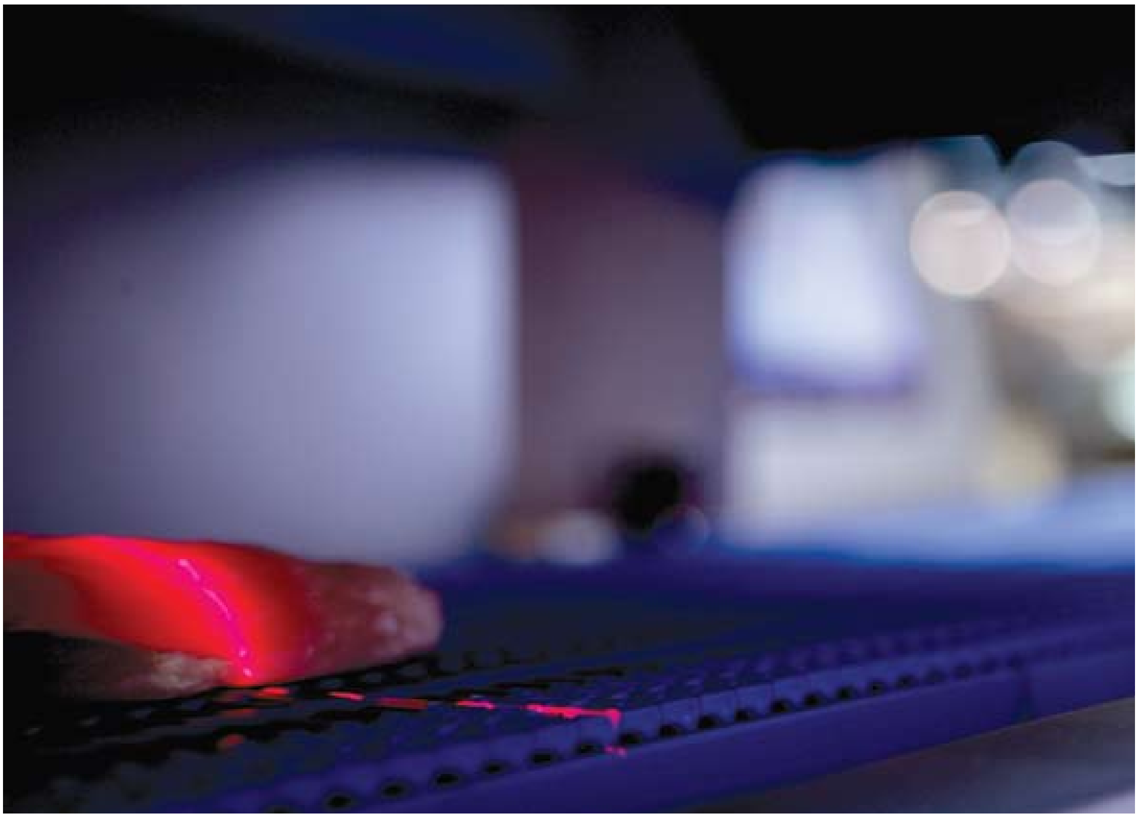
Carnitech sales activities increased in Seattle, USA, in particular for land-based fish and salmon processing plants.

The Group's growth potential for 2006 lies in the meat and poultry industries, as well as in the introduction of new products into growing market sectors such as the processing of prepared food. Emphasis will focus on strengthening cooperation among Marel companies serving the meat industry.

Mentor: The Marel Educational Center

Marel places ever-increasing emphasis on knowledge and training employees. This has been underscored with the founding of Mentor: The Marel Educational Center, which thoroughly trains Group employees for work in sales, marketing and services.

PRODUCT DEVELOPMENT



The Marel Group focuses on servicing customers by approaching them as strategic partners in developing market-driven products. Our Product Development Team works closely with processors and others to bring innovative, high-quality products to the market. Emphasis is placed on standardized, high-quality products and solutions designed for unproblematic serviceability.

The Marel Group´s product development strategy aims at creating the best products on the market in terms of functionality, reliability, safety, hygiene and operating costs, a strategy that has maintained our leadership position in innovation and high-tech application release. New product turnover ratio between 2003 and 2005 averaged 18%, with distribution between food processing industries varying within the Group's companies: each focuses on its particular strengths.
In line with our ongoing product development strategy, Marel hf. introduced 9 new products in 2005, while Carnitech unveiled 4. During the year, the Marel Group applied for 15 patents. It currently holds 25 patents and applies for 5 to 10 patents yearly, making it among the more active companies in this field. Patent protection is vital to sustaining the company's value and leadership position, since its success is to a large degree structured on technological innovation and employee experience.

The fundamental role of the Group's innovative product development strategy was underscored in 2005 by the hiring of new team members at both Marel hf. and Carnitech A/S. Product development at Pols was fully integrated into Marel hf. during the year. Employees working on product development for the Marel Group totaled 9% of total staff in 2005. At Marel hf. alone, 15% of the workforce was employed in product development. An advanced Research and Technology Group is operated, which has the primary function of increasing know-

ledge in new technologies that are likely to be utilized by the Marel Group – both long- and short-term – thereby further strengthening the overall technological base.

The Marel Group maintains strong connections with the scientific community, for example by welcoming research guests, and by providing scientists with research facilities for special projects that are applicable to the company's operational fields.

MANUFACTURING

The Manufacturing Process ensures that the functionality of all delivered products meets customer specifications – and the company's tight quality standards. Our strategy focuses on creating a competitive advantage with a reliable, fast and flexible production process, as well as improving and increasing quality and production.

Value of produced goods in 2005 was the highest in Marel's history, an increase of 7% from the previous year. The order book by the middle of 2005 was higher than ever and called for increased production capacity.

Marel responded by hiring new staff and increasing subcontracting. At the end of the year, 150 people were employed in manufacturing at Marel, Garðabær, and 14 in Ísafjörður. More final product manufacturing was outsourced than the previous year. Two standard products were moved entirely to Carnitech's manufacturing division with good results.

Carnitech A/S bought a new high-tech Trumf 5 kW laser-cutting machine to optimize production and increase productivity. The unit is one of the best on the market – and ensures fast, efficient and highly reliable metal fabrication.

Lean Manufacturing

Marel used Lean Manufacturing methodology to streamline the production process in 2005. Several projects aimed at shortening the production process with good results. All production cells started a program called the 5S, which involves cleanliness, order and organization in the work area. Continuous improvement using Lean Thinking methodology will be emphasized in 2006.

Material costs were decreased by moving subcontracted parts production from several contractors to new ones abroad offering lower prices.

The Group will continue seeking the most cost effective ways to produce parts in 2006, with the main emphasis centered on building up our own production in Slovakia.

New Manufacturing Plant in Slovakia

While a reduction in material costs was achieved by changing subcontractors, primary emphasis will be placed on developing our own parts-production manufacturing in Slovakia to supply the Marel Group. Carnitech's machine processing centre, which had been facing stiff competition, has to a large degree been moved from Denmark to Slovakia.

Conditions in Slovakia were first surveyed in March 2005, and parts production commenced in November. The country was selected on the basis of low labor costs, a good infrastructure (transportation, etc.) and good access to a well-educated and capable workforce. Final product manufacturing will begin being moved there during the second half of 2006.

The production facilities in Slovakia are situated in the city of Nitra in western Slovakia, a short distance from the capital of Bratislava and the Austrian border.

A 2000-m² facility has been leased until the end of 2007, which was renovated to fit Marel's and Carnitech's needs. In addition, a 40,000-m² industrial lot was purchased in Nitra, and construction there on a new manufacturing plant is scheduled for completion at the end of 2007.

Although most of Marel's manufacturing growth over the coming years will be in Slovakia, production in Iceland remains very important, and will continue to be developed. New equipment, tailor-designed solutions and larger systems will carry on being made in Iceland, while growth in Slovakia will be in parts production and the manufacture of standardized products.

At the end of 2005, it was announced that production facilities at Austurhraun in Garðabær would be expanded. Scheduled for completion in 2006, the additional 4000-m² space will be used in particular to meet the growing needs for production of larger systems.

Pols merges with Marel

Marel and Pols in Ísafjörður were integrated under the Marel brand in September 2005. The bulk of operations in Ísafjörður are manufacturing, and emphasis in 2006 will be on specializing and focalizing production. With the implementation of specialization, conditions for increased productivity in Ísafjörður are good, and such increases will be the primary aim there in 2006.

Being the best

Professional dedication to being the best characterizes the work at Marel's manufacturing facilities. A Marel employee became the Icelandic Welding Champion 2005, the third year in a row that Marel wins the title.

SERVICE

With customers in over 60 countries around the world, Marel focused on bringing service as close to them as possible in 2005. Efforts were put into further building up technical know-how and expertise within the Group's subsidiaries and agent companies. Transfer of technical knowledge was achieved through the periodical training seminars held at Marel's headquarters in Iceland, private seminars and Marel experts visiting various countries, as well as a transfer work program where local specialists go to work in other countries. In 2005, three technical experts were transferred from the Marel parent company to take over technical management in subsidiary companies. Supporting these efforts is a periodical technical newsletter and an Extranet specifically designed for Marel technicians.

Currently, Marel employs 125 service technicians worldwide. This group is continuously expanding and in 2005 Marel subsidiaries added heavily to their service resources. The biggest teams are at Marel USA, Germany and Denmark while Spain, Canada, Australia, UK, Russia and Chile are growing fast. With these additions, Marel subsidiaries became more self-sufficient, creating an opportunity for the service team in Iceland to focus more effort on supporting new market areas and the home market in Iceland.

The Icelandic team consists of 18 service technicians with different areas of expertise. Besides supporting Icelandic customers, the Icelandic service team supports their colleagues in other countries through telephone, email and remote connections. They also take care of service in new or remote market areas, where local technical support has not yet been built up.

The Marel technical training program was recently reorganized into an ambitious Technical School, now a part of Mentor: The Marel Educational Center. The Center provides comprehensive sales and service courses for its agents and employees.

Marel Customer Care

The Perfect Partnership Program

To enhance customer service, Marel offers a new Partnership Program tailored to meet the needs of different operations. Marel offers three different service levels: Platinum, Gold and Silver, with flexibility within each to provide the best possible solution.

The Partnership Program can range from basic equipment service to extensive consultancy and preventative maintenance. Service agreement contracts ensure minimum downtime, up-to-date training and maintenance, and first-class processing consultancy, all focused on giving Marel customers exactly what they need.

The agreements offer processing consultancy, as well as direct access to service and follow-up, that ensure the best operation achievable. Marel specialists make sure that equipment, training and software systems are always up-to-date. Knowledgeable, reliable technicians and specialists are on call for preventive maintenance, processing consultation, in-depth customer training seminars, spare parts handling, and inventory, as well as remote online service and monitoring.

With this system Marel has created a program that goes far beyond regular service contracts. It not only ensures preventive maintenance of equipment, but also covers employee training, remote system check-ups and assistance, as well as processing consultancy.

CORPORATE SOCIAL RESPONSIBILITY

Responsible business conduct and consistent effort in community involvement characterizes the Marel Group's corporate social responsibility strategy. The Marel Group strategically implements responsible corporate behavior, and pursues community involvement objectives that meet the expectations of our customers as well as communities. Our management and employees demonstrate support, commitment and participation in identifying and monitoring issues important to the Group's operation and reputation.

We promote the involvement of all our subsidiaries and other operations in implementing the Group's strategy.

Glöggur, the Space Mascot at the Children's Science Museum.

Social responsibility activities and projects differ from country to country, depending on local conditions. Our subsidiaries participate in local community issues, as well as carry out their role in the Group's overall strategy. As the Marel Group develops and implements its strategy based on mutual goals and concerns of the company and the community, the group's main focus is on supporting innovation, science and empirical science education on all educational levels. Our strategy is based on partnership, and our employees actively participate in diverse cooperative programs on various levels.

In 2004, the Group established a long-term plan for the support of science education on all educational levels. Both personnel and financial resources were allocated to the project in 2005. With our contribution, both financial and hands-on, we strive to support and enrich innovation, science and mathematical education, as well as increase the awareness of the value of a strong scientific education in the communities where we operate.

The Marel Group's focus over the coming years will be to support youth innovation and science contests and university engineering contests as a main sponsor, as well as contributing to the development of a children's science museum and other science programs with active participation and financial support. We work closely with local municipalities to support science teaching and coordination, while maintaining strong ties with universities and research bodies to support innovation and excellence in science exploration and research.

Teams compete on special tracks using legos in the First Lego League competition.

The obstruction course at the annual University of Iceland mechanical and industrial engineer student competition.

HUMAN RESOURCES

The human resource strategy of the Marel Group integrates the spirit of an innovative high-tech organization with an ambitious and positive work environment. We follow specific objectives each year that have been formulated incorporating employee input on strategy and benchmarking. Our framework is solid but flexible, and we encourage creativity and individuality coupled with responsibility. Creativity is integral to success in a highly competitive business, and while our goals are clear, thinking outside the box to attain them is encouraged.

The Marel Group is dedicated to providing a safe, comfortable work environment. We thoroughly monitor all safety and health aspects of the physical work environment. Good ergonomics are vital to a productive work force.

Stable growth continues to characterize employment activities in the Group. The total number of employees increased from 773 in 2003 to 895 in 2005. The Marel Group benefits from low employee turnover, which was 6.85% in 2005. This number is in line with the average turnover of the last few years.

New Educational Center Established

Marel is a learning organization with an emphasis on continuing education. With this in mind, different training programs within the company were united under Mentor: the Marel Educational Center, in November 2005. The Mentor mission is to ensure that our employees, subsidiaries and agents have the knowledge and skills needed to carry out the company's vision.

Mentor comprises the Technical School, Service School and the Sales School as well as other specialized education for different groups such as management training and coaching, basic education for all newcomers and knowledge sharing throughout the Marel matrix. In addition, Mentor offers the "Ready for Anything" program for courses unrelated to work.

Internal Survey Results

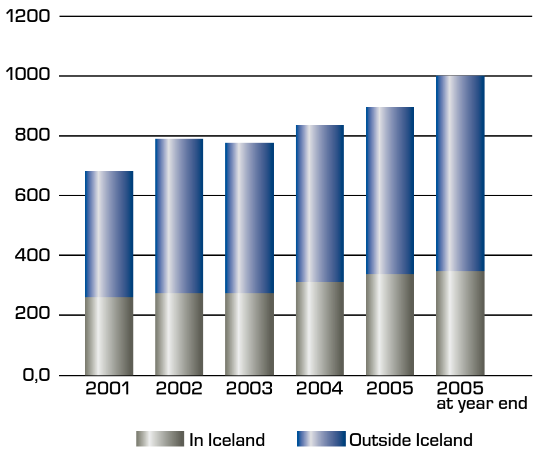
The Human Resource Division conducted a qualitative employee survey in 2005. The results were encouraging as the majority saw the company as having an encouraging, informal and solid culture. The survey also revealed good team spirit and co-operation between people as well as the benefits of a rich open-door policy and a relatively flat hierarchy. Respect and encouragement is experienced between employers and employees.

Employees found the Group to be hard working, professional, good at problem solving and willing to walk the extra mile if needed for success. People felt proud to work for the Group and valued the opportunity to affect their work and work independently. An employee survey conducted in 2004 reflected the same results, which show just how solid our company culture has become.

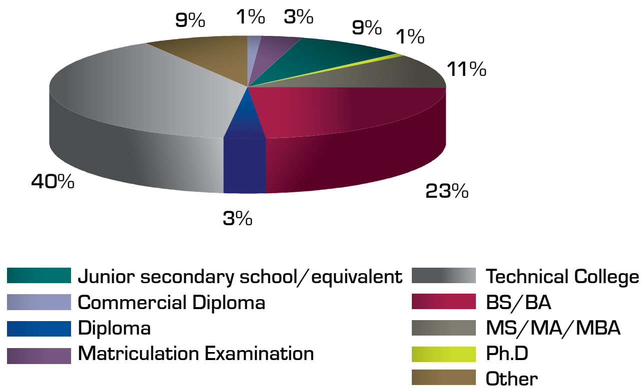
We Promote Creativity and Fun

In the Marel community we believe in doing creative, entertaining things together. Group activities in 2005 included hiking Mt. Esja, a Mexican theme lunch, family barbeques at the zoo and participating in a citywide Bike to Work program. The annual racquetball and golf tournament also took place. Fostering a team spirit is important and our teams are encouraged to organize their own activities.

Number of employees, average pr year



Division of education



MAREL GROUP ADMINISTRATION

Marel hf

Ásgeir Ásgeirsson
Director of Product Development

Education:
Electronic Engineering M.Sc., 1993,
University of Washington.
Computer Science B.Sc., 1990,
University of Iceland.
Electronic Engineer B.Sc., 1986,
University of Iceland.

Ásgeirsson started working for Marel hf in 1986 and worked on product development from 1993-1996. From 1996 until 2001, Ásgeirsson held the position of IT director at Marel and became Director of Product Development in 2001. In 2004, Ásgeirsson also took on the position of Managing Director of subsidiary Pols in Iceland.

Jón Þór Ólafsson
Director of Product Development

Education:
Electronic Engineering, B.Sc., 1978,
University of Iceland.
Science Degree, 1973,
Technical University of Iceland.

Ólafsson worked as a specialist at the Science Institute of the University of Iceland from 1978 to 1983 where he began exploring the possibilities of developing and manufacturing scales for the effective control of production in fish processing plants. This work became the foundation of Marel, which was established in 1983. Ólafsson has been with the company from the start, and became a Director of Product Development in 1987.

Kristján Þorsteinsson
Director of Finance

Education:
Business Graduate, B.Sc., 1976,
University of Iceland.

Þorsteinsson was a Director in the finance division of Eimskip Shipping Company from 1978 until 1996. In 1996 he became managing director of a shipping agency in England, owned by Eimskip. He joined Marel in 1999 as Director of Finance.

Lárus Ásgeirsson
Director of Sales and Marketing

Education:
Mechanical Engineering, M.Sc., 1982,
Oklahoma State University.
Mechanical Engineering, B.Sc., 1981,
University of Iceland.

Ásgeirsson was employed as a research engineer for the Icelandic Fisheries Laboratories in Iceland between 1983 and 1986. He became the Operation Manager of Lýsi Ltd in 1986 and the General Manager of the Icepro Group in the USA from 1987 to 1991. In 1991, Ásgeirsson joined Marel as Director of Sales and Marketing. He is also the deputy for the Managing Director of Marel.

Magnús Þór Ásmundsson
Director of Manufacturing

Education:
Electrical Engineering, M.Sc., 1990,
Technical University of Denmark.
Electrical Engineering, B.Sc., 1987,
University of Iceland.

Ásmundsson joined the product development process at Marel hf in 1990, and became Human Resources manager in 1998. In December 1999, Ásmundsson took over as Director of Manufacturing.

Hörður Arnarson
Managing Director

Education:
Engineering, Ph.D., 1990,
Technical University of Denmark.
Electronic Engineering, B.Sc., 1985,
University of Iceland.

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

Pétur Guðjónsson
Director of Sales and Marketing

Education:
Electrical Engineering, B.Sc., 1982,
University of Iceland.

Guðjónsson worked as an engineer at the Science Institute of the University of Iceland from 1982 to 1984, and taught at the Technical University from 1982-1985. He joined Marel in 1984 as an engineer, among the first group of employees of the company. In 1985, Guðjónsson became the Director of Marel Canada and headed the subsidiary until 1991 when he became Director of Sales and Marketing at the company's headquarters in Iceland.

Sigurpáll Jónsson
Director of Customer Service

Education:
Electrical Engineering, Graduate Studies, 1979, ETH in Zurich.
Electrical Engineer, B.SC., 1978,
University of Iceland.

Before joining Marel in 1985, Jónsson worked as an engineer for ISAL, the Icelandic Aluminum Company, for five years. From 1989 to 1996, he directed various departments within Marel. He became director of Marel USA when the subsidiary was founded in 1996. Jónsson operated Marel USA until 2000, when he returned to headquarters and took over the position of Director of Customer Service. Since 2003, Jónsson has also been Director of Purchasing.

Carnitech A/S

Thorkild Christensen
Managing Director, Carnitech A/S

Education:
Locksmith, 1966, Østre Brønderslev
Centralskole, Denmark.

Christensen was one of the founders of Carnitech A/S in 1981. Before that, Christensen held jobs as a locksmith and supervisor in different companies. In 1983 he became the managing director of Carnitech A/S.

Tage Thesbjerg
Financial Director, Carnitech A/S

Education:
Auditor, 1984, Ringkjøbing Handelsskole,
Denmark.

Thesbjerg joined Carnitech A/S in 1991 and became its financial director in 1997. Before that, Thesbjerg spent 5 years at the Danish auditing company Mortensen & Beirholm, followed by 2 years at Sabroe Refrigeration's subsidiary in Gothenburg, Sweden as its financial manager.

Aksel Andersen
Technical Director, Carnitech A/S

Education:
Mechanic, 1965, Tylstryp Centralskole,
Denmark.

Andersen was one of the founders of Carnitech A/S in 1981. Before that, Andersen worked as a mechanic, locksmith, and supervisor in different companies. After only a few years in Carnitech A/S, Andersen became responsible for the production as well as the drawing office, and has operated the two as Technical Director since 1983.

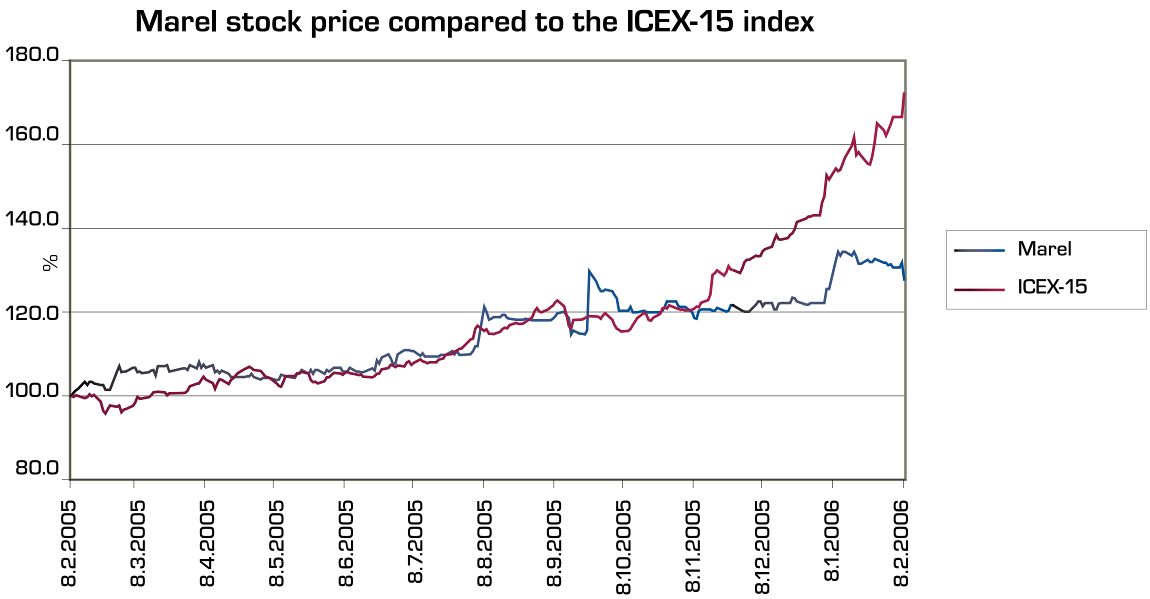
SHARES & SHAREHOLDERS

INVESTORS

Marel's shares are listed on the Icelandic Stock Exchange (ICEX) and are included in the selected share index ICEX-15. The share price rose from ISK 49.2 at year's end 2004 to ISK 65.00 at year's end 2005, an increase of 32%. During the same period the ICEX-15 index increased by 65%. The year's highest end-of-day share price was ISK 69.00 in September, and the lowest end-of-day share price was ISK 48.80 in January.

The total market value of Marel shares traded in 2005 was ISK 6,859,895,687 and the turnover rate was 47%. The average end-of-day spread was 0.86%. The market value of the company at year-end 2005 was ISK 15.6 billion. The number of shares is 240,064,000. At the end of 2005, 1176 shareholders had shares in Marel hf, down from 1354 shareholders at year-end 2004.

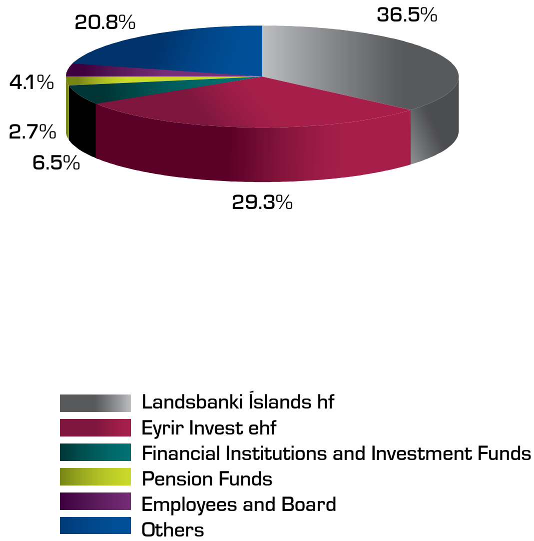
There were considerable changes in the shareholder group in 2005. Most notable is that Landsbanki Íslands hf has become the largest shareholder, holding 36.5% at year end 2005, and Eyrir Invest ehf holds 29.3%. Marel sold 4.8 million of own shares in excess of bought shares in 2005. As of February 6th, 2006, Marel's own shares were 1,769,142.



Top 10 shareholders

8.2.2006

	Shareholders	Shares	%
1	Landsbanki Íslands hf	87,626,069	36.5
2	Eyrir Invest ehf	70,407,877	29.3
3	Ingunn Sigurðardóttir	4,750,000	2.0
4	Helga Sigurðardóttir	4,750,000	2.0
5	Súsanna Sigurðardóttir	4,714,500	2.0
6	Tryggingamiðstöðin hf	4,160,946	1.7
7	Egill Vilhjálmur Sigurðsson	3,800,000	1.6
8	Traustfang ehf	3,467,368	1.4
9	Eignarhaldsfélag Hörpu ehf	3,326,000	1.4
10	Landssjóður hf	2,641,104	1.1



CORPORATE GOVERNANCE

Marel hf Board of Directors complies in its procedures with the Company's Articles of Association. It has also formalized Internal Rules of Procedures which are closely followed. These rules and the Board's activities comply with the guidelines set forward in Corporate Governance presented by the Icelandic Stock Exchange, the Icelandic Chamber of Commerce and SA-Confederation of Icelandic Employers.

FINANCIAL STATEMENTS 2005

We service with care and responsibility

THE BOARD & MANAGING DIRECTOR'S REPORT

The consolidated financial statements for the year 2005 comprise the financial statements of Marel hf. and its subsidiaries. The consolidated financial statements are for the first time prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The effects on shareholder's equity as a result from adoption of IFRS are disclosed in note number 5.

Total sales of the Group according to the income statement were EUR 129 million in the year compared to EUR 112.3 million in the year 2004. Net profit of the Group amounted to EUR 5.7 million compared to EUR 8 million in the preceding year. Assets of the Group amounted to EUR 114.9 million according to the balance sheet and shareholders' equity amounted to EUR 41 million at year-end.

During the year an average of 896 employees were employed by the Group, with 335 employed by the parent company. Total wages and salaries for the group amounted to EUR 49.5 million.

The number of shareholders in Marel hf at year's end 2005 was 1,176 a decrease of 178 during the year. Two shareholders had a holding interest of more than 10% in the company, Landsbanki Íslands hf, with 36.49% and Eyrir Invest, with 29.33%.

The board of directors suggests that a dividend amounting to 48 MISK, 0,20 per share, to be paid in the year 2006, but refers to the financial statements regarding appropriation of the year's net profit and changes in shareholders' equity.

The board of directors and managing director of Marel hf hereby ratify the financial statements for 2005 with their signatures.

Garðabæ, 7 February, 2006

Árni Oddur Þórðarson
Arnar Þór Másson
Friðrik Jóhannsson
Þórólfur Árnason
Egill Tryggvason

Managing Director

Hörður Arnarson

The board of directors from left to right: Arnar Þór Másson, Árni Oddur Þórðarson, Friðrik Jóhannsson and Þórólfur Árnason. Helgi Magnússon was not present.

Report of the auditors

To the board of directors and shareholders of Marel

We have audited the accompanying consolidated balance sheet of Marel hf (the company) and its subsidiaries (together, the group) as of 31 December 2005 and the related consolidated statements of income, cash flows and changes in shareholders´ equity for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes, based on our assessment of materiality and risk, an analytical review and an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the accompanying consolidated financial statements give true and fair view of the financial position of the group as of 31 December 2005, and of the results of its operations and cash flows for the year then ended, in accordance with law and International Financial Reporting Standards as adopted by the EU.

Garðabæ, 7 February 2006

PricewaterhouseCoopers hf

Ólafur Þór Jóhannesson
Þórir Ólafsson

Ólafur Þór Jóhannesson

Þórir Ólafsson

Financial ratios

	2005	2004	2003*	2002*	2001*
Operating results					
Sales	129.039	112.301	106.104	100.654	94.116
Gross profit	43.162	41.016	34.617	-	-
Profit before depreciation (EBITDA)	14.814	16.527	10.129	5.712	8.432
Profit from operations (EBIT)	9.721	12.066	6.568	2.278	5.979
Net profit	5.715	7.984	3.749	50	2.106
Cash flow statement					
Net cash from operating activities	2.987	13.207	4.724	1.004	1.098
Investing activities	(10.180)	(6.389)	(1.955)	(17.959)	(12.585)
Financing activities	7.210	(7.263)	(1.153)	16.906	4.238
Financial position					
Total assets	114.890	95.482	81.334	82.602	68.829
Working capital	16.557	19.807	17.700	12.740	14.978
Equity	41.032	31.595	25.167	22.724	23.654
Various figures in proportion to sales					
Gross profit	33,4%	36,5%	32,6%	-	-
Selling and marketing expenses	12,5%	12,4%	12,8%	-	-
Research and development expenses	6,2%	5,8%	6,8%	-	-
Administrative expenses	8,1%	8,1%	8,1%	-	-
Wages and benefits	42,5%	41,9%	41,0%	43,5%	40,7%
Profit before depreciation (EBITDA)	11,5%	14,7%	9,5%	5,7%	9,0%
Profit from operations (EBIT)	7,5%	10,7%	6,2%	2,3%	6,4%
Depreciation/amortization	3,9%	4,0%	3,4%	3,4%	2,6%
Net profit	4,4%	7,1%	3,5%	0,0%	2,2%
Other key ratios					
Current ratio	1,4	1,6	1,7	1,4	1,6
Quick ratio	0,6	0,7	0,8	0,7	0,8
Equity ratio	35,7%	33,1%	30,9%	27,5%	34,4%
Return on owners' equity	18,1%	30,5%	16,5%	0,2%	9,4%
Return on total assets	5,4%	9,0%	4,6%	0,1%	3,2%
Earnings to price	0,03	0,06	0,05	0,00	0,03
Price to earnings (P/E)	36,7	17,7	19,7	990,0	32,5

*Amounts 2001-2003 are not in conformity with IFRS.

*Amounts 2001 are translated from Icelandic kronur into the currency of EUR based on average exchange rate of each year for the operating items but the year-end rate for the balance sheet items.

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

Consolidated income statement

	Notes	2005 Q4	2004 Q4	2005	2004
Sales	6	34.785	29.122	129.039	112.301
Cost of sales		(23.484)	(18.520)	(85.877)	(71.285)
Gross profit		11.301	10.602	43.162	41.016
Other operating income		349	180	1.052	598
Selling and marketing expenses		(4.413)	(3.673)	(16.067)	(13.888)
Research and development expenses		(3.014)	(2.087)	(8.004)	(6.542)
Administrative expenses		(2.948)	(2.174)	(10.422)	(9.118)
Profit from operations		1.275	2.848	9.721	12.066
Finance costs - net	8	(576)	(596)	(2.639)	(1.768)
Profit before tax		699	2.252	7.082	10.298
Income tax expense	10	(120)	(332)	(1.367)	(2.236)
Net worth tax expense		0	(25)	0	(78)
Net profit		579	1.895	5.715	7.984

Earnings per share (expressed in EUR cent per share)					
Basic earnings per share	11	0,25	0,81	2,42	3,40
Diluted earnings per share	11	0,24	0,79	2,38	3,33

The notes on pages 48-77 are an integral part of the consolidated financial statements.

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

Consolidated balance sheet

Assets	Notes	31/12 2005	31/12 2004
Non-current assets			
Property, plant and equipment	13	33.242	31.847
Goodwill	14	9.580	7.861
Other intangible assets	14	8.518	6.360
Investments in other companies	28	0	753
Available-for-sale investments	29	680	0
Receivables		29	92
Deferred income tax assets	22	1.231	1.334
		53.280	48.247
Current assets			
Inventories	15	25.274	21.166
Production contracts	16	8.921	5.859
Receivables and prepayments	17	23.517	15.844
Derivative financial instruments	19	18	0
Cash and cash equivalents	18	3.880	4.366
		61.610	47.235
Total assets		114.890	95.482
Shareholders' equity			
Ordinary shares	26	2.637	2.637
Treasury shares	26	(8)	(75)
Share premium		12.671	9.059
Fair value and other reserves	27	225	(408)
Retained earnings		25.507	20.382
Total shareholders' equity		41.032	31.595
Liabilities			
Non-current liabilities			
Borrowings	21	24.881	31.442
Deferred income tax liabilities	22	3.520	3.349
Derivative financial instruments	19	404	0
		28.805	34.791
Current liabilities			
Trade and other payables	20	24.719	21.118
Current tax liabilities		278	328
Borrowings	21	19.262	7.024
Provisions	23	794	626
		45.053	29.096
Total liabilities		73.858	63.887
Total equity and liabilities		114.890	95.482

The notes on pages 48-77 are an integral part of the consolidated financial statements.

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

Consolidated statement of changes in shareholders' equity

	Notes	Share capital	Treasury shares	Share premium	Fair value and other reserves	Retained earnings	Total
Balance at 1 January 2004		2.637	(48)	10.794	0	14.473	27.856
Tax corrections from prior years	2					(1.668)	(1.668)
Restated balance at 1 January 2004		2.637	(48)	10.794	0	12.805	26.188
Cash flow hedges:							
– net fair value gain/(loss), net of tax	27				(20)		(20)
Currency translation differences	27				(388)		(388)
Net income/(expenses) recognised directly in equity		0	0	0	(408)	0	(408)
Sale (purchases) of treasury shares, net			(62)	(2.967)			(3.029)
Business combination	31		35	1.232			1.267
Dividend						(407)	(407)
Net profit						7.984	7.984
		0	(27)	(1.735)	(408)	7.577	5.407
Balance at 31 December 2004		2.637	(75)	9.059	(408)	20.382	31.595
Adoption of IAS 32 and IAS 39		0	0	0	0	0	0
Balance at 1 January 2005		2.637	(75)	9.059	(408)	20.382	31.595
Cash flow hedges:							
– net fair value gain/(loss), net of tax	27				(257)		(257)
Currency translation differences	27				890		890
Net income/(expenses) recognised directly in equity		0	0	0	633	0	633
Sale (purchases) of treasury shares, net			67	3.612			3.679
Dividend						(590)	(590)
Net profit						5.715	5.715
		0	67	3.612	633	5.125	9.437
Balance at 31 December 2005		2.637	(8)	12.671	225	25.507	41.032

The notes on pages 48-77 are an integral part of the consolidated financial statements.

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

Consolidated cash flow statement

	Notes	2005	2004
Cash flows from operating activities			
Cash generated from operations	28	5.762	15.801
Interest paid		(1.959)	(1.548)
Tax paid		(816)	(1.046)
Net cash from operating activities		2.987	13.207
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		(1.939)	(1.758)
Purchase of property, plant and equipment	13	(3.752)	(1.642)
Purchase of intangibles	14	(4.811)	(3.118)
Proceeds from sale of PPE		322	117
Proceeds from sale of shares		0	12
Net cash used in investing activities		(10.180)	(6.389)
Cash flows from financing activities			
Proceeds from (purchase of) treasury shares, net		3.678	(3.030)
Proceeds from borrowings		8.285	2.452
Repayments of borrowings		(3.681)	(6.004)
Finance lease principal payments		(482)	(274)
Dividends paid to group shareholders		(590)	(407)
Net cash used in financing activities		7.210	(7.263)
Net increase in cash and cash equivalents		17	(445)
Exchange gains/(losses) on cash and bank overdrafts		(503)	84
Cash and cash equivalents at beginning of year		4.366	4.727
Cash and cash equivalents at end of period	18	3.880	4.366
Cash generated from operations	28		
Net profit		5.715	7.984
Adjustments for items not affecting cash		9.585	8.122
Changes in working capital		(9.538)	(305)
		5.762	15.801
Working capital from operation		12.525	13.512

The notes on pages 48-77 are an integral part of the consolidated interim financial statements.

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

Notes to the consolidated financial statements

1. General information

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

These consolidated financial statements have been approved for issue by the board of directors on 7 February 2006.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of Marel Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. They are covered by IFRS 1, International Financial Reporting Standards, First-time Adoption of IFRS, because they are the Group's first IFRS financial statements.

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

Marel consolidated financial statements were prepared in accordance with Icelandic Generally Accepted Accounting Principles (GAAP) until 31 December 2004. GAAP differs in some areas from IFRS. In preparing Marel 2005 consolidated financial statements, management has amended certain accounting, valuation and consolidation methods applied in the GAAP financial statements to comply with IFRS. The comparative figures in respect of 2004 were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of the transition from GAAP to IFRS on the Group's equity and its net income are provided in note 5.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets (including derivative instruments) at fair value through profit or loss.
The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies.

Correction of error from prior years:
In 2005, Marel had debate with the local tax authorities in Iceland regarding deducting of amortization expenses of goodwill for tax purposes in the years 1998-2003. Tax authorities denied to accept deductions in the tax returns for the preceding years and Marel has to pay EUR 1.668 in the beginning of year 2006. This amount is treated as a prior period error according to IAS 8 and is restated retrospectively for the earliest prior period presented in the financial statements. Hence, retained earnings 1 January/31 December 2004 is reduced by this amount (see changes in shareholders´equity) and trade and other payables increased.

The decision of the local tax authorities will be appealed to State Internal Revenue Board (Yfirskattanefnd) in the year 2006.

2.2 Group accounting

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

Notes to the consolidated financial statements

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Group companies

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

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

2.5 Property, plant and equipment

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

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

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

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. Borrowing costs are expensed as incurred.

2.6 Intangible assets

Goodwill

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

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

Research and development

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

Computer software

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

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

Other intangible assets

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

2.7 Impairment of assets

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

2.8 Investments

From 1 January 2004 to 31 December 2004

Financial fixed assets include investments in companies other than subsidiaries. Financial fixed assets are recorded at cost, including additional direct charges. A permanent impairment is provided as a direct reduction of the securities account.

From 1 January 2005

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

Receivables

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

Available-for-sale financial assets

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

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

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

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

2.9 Inventories

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

2.10 Production (construction) contracts

Production costs are recognised when incurred.

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

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

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

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

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

2.11 Receivables and prepayments

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The changes of the provision is recognised in the income statement.

Notes to the consolidated financial statements

2.12 Cash and cash equivalents

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

2.13 Share capital

Ordinary shares are classified as equity.

Where the Company or its subsidiaries purchases the Company's equity share capital, the consideration paid including any attributable incremental external costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

2.14 Borrowings

Borrowings are recognised initially at fair value. All borrowing costs are expensed when incurred.

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

2.15 Deferred income tax

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

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

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

2.16 Employee benefits

Equity compensation benefits

Share options were granted to the employees in 2001. Options were granted at the market price of the shares on the date of the grant and are exercisable at that price. Options are exercisable beginning one year from the date of grant and have a contractual option term of six years. In accordance with IFRS 2, EUR nil is recognised as an expense in the income statement because options were granted before 7 November 2002.

Profit sharing and bonus plans

Under some circumstances, a liability for key employee benefits in the form of profit sharing and bonus plans is recognised in other provisions when there is no realistic alternative but to settle the liability and at least the following condition is met:

– there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements.

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

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The company gives warranty on certain products and undertakes to repair or replace items that fail to perform satisfactorily. Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2.18 Revenue recognition

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

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

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

2.19 Leases

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

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

2.20 Dividend distribution

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

Notes to the consolidated financial statements

3. Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

(ii) Price risk

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

(b) Credit risk

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

(c) Liquidity risk

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

(d) Cash flow and fair value interest rate risk

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

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

3.2 Accounting for derivative financial instruments and hedging activities

From 1 January to 31 December 2004

Derivative financial instruments are designated ‘hedging’ or ‘non-hedging’ instruments. The transactions that can meet the conditions for hedge accounting, according to the Group’s policy for risk management, are classified as hedging transactions; the others, although set up for the purpose of managing risk have been designated as ‘Trading’. The Group records derivative financial instruments at cost. The gains and losses on derivative financial instruments are included in the income statement on maturity to match the underlying hedged transactions where relevant.

For foreign exchange instruments designated as hedges, the premium (or discount) representing the difference between the spot exchange rate at the inception of the contract and the forward exchange rate is included in the income statement, in finance costs, in accordance with the accrual method.

For interest rate instruments designated as hedges, the interest rate differential is included in the income statement, in finance costs, in accordance with the accrual method, offsetting the effects of the hedged transaction.

From 1 January 2005 onwards

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in note 19. Movements on the hedging reserve in shareholders’ equity are shown in note 27.

Cash flow hedge

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

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

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

Notes to the consolidated financial statements

3.3 Fair value estimation

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

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

4. Critical accounting estimates and judgments

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

5. Transition to IFRS

5.1 Basis of transition to IFRS

5.1.1 Application of IFRS 1

The Group's financial statements for the year ended 31 December 2005 are the first annual financial statements that comply with IFRS. These financial statements have been prepared as described in note 2.1. The Group has applied IFRS 1 in preparing these consolidated financial statements.

Marel transition date is 1 January 2004. The Group prepared its opening IFRS balance sheet at that date. The Group's IFRS adoption date is 1 January 2005.

In preparing these consolidated financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

5.1.2 Exemptions from full retrospective application – elected by the Group

Marel has elected to apply the following optional exemptions from full retrospective application.

(a) Business combinations exemption
Marel has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2004 transition date.

(b) Fair value as deemed cost
Marel has elected to measure certain items of property, plant and equipment at fair value as at 1 January 2004.

(c) Cumulative translation differences
Marel has elected to set the previously accumulated cumulative translation to zero at 1 January 2004. This exemption has been applied to all subsidiaries in accordance with IFRS 1.

(d) Exemption from restatement of comparatives for IAS 32 and IAS 39.
The Group elected to apply this exemption. It applies previous GAAP rules to derivatives, financial assets and financial liabilities and to hedging relationships for the 2004 comparative information. The adjustments required for differences between GAAP and IAS 32 and IAS 39 are determined and recognised at 1 January 2005.

(e) Designation of financial assets and financial liabilities exemption
The Group reclassified various securities as available-for-sale investments.

(f) Share-based payment transaction
The Group has elected to apply the share-based payment exemption. It applied IFRS 2 from 1 January 2004 to those options that were issued after 7 November 2002 but that have not vested by 1 January 2005.

5.1.3 Exceptions from full retrospective application followed by the Group

Marel has applied the following mandatory exceptions from retrospective application.

(a) Derecognition of financial assets and liabilities exception
Financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS. The application of the exemption from restating comparatives for IAS 32 and IAS 39 means that the Group recognised from 1 January 2005 any financial assets and financial liabilities derecognised since 1 January 2004 that do not meet the IAS 39 derecognition criteria. Management did not chose to apply the IAS 39 derecognition criteria to an earlier date.

(b) Estimates exception
Estimates under IFRS at 1 January 2004 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

5.2 Reconciliations between IFRS and Icelandic GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS. The first reconciliation provides an overview of the impact on equity of the transition at 1 January 2004 and 31 December 2004. The following reconciliations provide details of the impact of the transition on:

a) Equity at 1 January 2004 and 31 December 2004.
b) Net income 2004
c) Equity at 1 January 2005.

5.2.1 Summary of equity	**1/1 2004**	**31/12 2004**
Total equity under local GAAP	25.167	27.691
Capitalisation of development costs	4.469	5.491
Reversal of amortization of goodwill		282
PPE/intangible assets - recognition of impairment loss and changes in depreciation methods	(298)	(53)
Changes in valuation of inventories	(1.000)	(1.103)
Tax adjustments	(482)	(713)
Total equity under IFRS	27.856	31.595

Tax corrections in the statement of shareholder's equity and note 2.1. are deducted from amounts previously presented in the interim financial statements. Hence, total equity under local GAAP at 31 December 2004 is 27.691 instead of 29.359.

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

Notes to the consolidated financial statements

5.2.2 Reconciliation of equity at 1 January 2004

Assets	**GAAP**	**Effect of transition to IFRS**	**IFRS**
Non-current assets			
Property, plant and equipment	32.812	(298)	32.514
Goodwill	3.408		3.408
Other intangible assets	1.074	4.469	5.543
Investments in other companies	753		753
Deferred income tax assets	1.035	244	1.279
	39.082	4.415	43.497
Current assets			
Inventories	16.693	(1.000)	15.693
Production contracts	6.064		6.064
Receivables and prepayments	14.768		14.768
Cash and cash equivalents	4.727		4.727
	42.252	(1.000)	41.252
Total assets	81.334	3.415	84.749
Shareholders' equity			
Ordinary shares	2.637		2.637
Treasury shares	(48)		(48)
Share premium	10.794		10.794
Fair value and other reserves	(1.196)	1.196	0
Retained earnings	12.980	1.493	14.473
Total shareholders' equity	25.167	2.689	27.856
Liabilities			
Non-current liabilities			
Borrowings	30.889		30.889
Deferred income tax liabilities	726	726	1.452
	31.615	726	32.341
Current liabilities			
Trade and other payables	14.309		14.309
Current tax liabilities	611		611
Borrowings	9.141		9.141
Provisions	491		491
	24.552	0	24.552
Total liabilities	56.167	726	56.893
Total equity and liabilities	81.334	3.415	84.749

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

5.2.3 Reconciliation of equity at 31 December 2004

Assets	GAAP	Effect of transition to IFRS	IFRS
Non-current assets			
Property, plant and equipment	31.792	55	31.847
Goodwill	7.687	174	7.861
Other intangible assets	869	5.491	6.360
Investments in other companies	753		753
Receivables	92		92
Deferred income tax assets	1.020	314	1.334
	42.213	6.034	48.247
Current assets			
Inventories	22.269	(1.103)	21.166
Production contracts	5.859		5.859
Receivables and prepayments	15.844		15.844
Cash and cash equivalents	4.366		4.366
	48.338	(1.103)	47.235
Total assets	90.551	4.931	95.482
Shareholders' equity			
Ordinary shares	2.637		2.637
Treasury shares	(75)		(75)
Share premium	9.059		9.059
Fair value and other reserves	(1.450)	1.042	(408)
Retained earnings	17.520	2.862	20.382
Total shareholders' equity	27.691	3.904	31.595
Liabilities			
Non-current liabilities			
Borrowings	31.442		31.442
Deferred income tax liabilities	2.322	1.027	3.349
	33.764	1.027	34.791
Current liabilities			
Trade and other payables	21.118		21.118
Current tax liabilities	328		328
Borrowings	7.024		7.024
Provisions	626		626
	29.096	0	29.096
Total liabilities	62.860	1.027	63.887
Total equity and liabilities	90.551	4.931	95.482

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

Notes to the consolidated financial statements

5.2.4 Reconciliation of equity at 1 January 2005

Assets	IFRS 31/12 2004	Effect of adoption of IAS 32 and 39	IFRS 1/1 2005
Non-current assets			
Property, plant and equipment	31.847		31.847
Goodwill	7.861		7.861
Other intangible assets	6.360		6.360
Investments in other companies	753	(753)	0
Available-for-sale investments	0	753	753
Receivables	92		92
Deferred income tax assets	1.334		1.334
	48.247	0	48.247
Current assets			
Inventories	21.166		21.166
Production contracts	5.859		5.859
Receivables and prepayments	15.844	(190)	15.654
Derivative financial instruments	0	190	190
Cash and cash equivalents	4.366		4.366
	47.235	0	47.235
Total assets	95.482	0	95.482
Shareholders' equity			
Ordinary shares	2.637		2.637
Treasury shares	(75)		(75)
Share premium	9.059		9.059
Fair value and other reserves	(408)		(408)
Retained earnings	20.382		20.382
Total shareholders' equity	31.595	0	31.595
Liabilities			
Non-current liabilities			
Borrowings	31.442		31.442
Deferred income tax liabilities	3.349		3.349
	34.791	0	34.791
Current liabilities			
Trade and other payables	21.118		21.118
Current tax liabilities	328		328
Borrowings	7.024		7.024
Provisions	626		626
	29.096	0	29.096
Total liabilities	63.887	0	63.887
Total equity and liabilities	95.482	0	95.482

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

Notes to the consolidated financial statements

5.2.5 Reconciliation of net income for year ended 31 December 2004

	GAAP	Effect of transition to IFRS	IFRS
Sales	112.301		112.301
Cost of sales	(71.486)	201	(71.285)
Gross profit	40.815	201	41.016
Other operating income	598		598
Selling and marketing expenses	(14.195)	307	(13.888)
Research and development expenses	(7.457)	915	(6.542)
Administrative expenses	(9.165)	47	(9.118)
Profit from operations	10.596	1.470	12.066
Finance costs - net	(1.879)	111	(1.768)
Profit before tax	8.717	1.581	10.298
Income tax expense	(2.024)	(212)	(2.236)
Net worth tax expense	(78)		(78)
Net profit	6.615	1.369	7.984

Explanation of the effect of the transition to IFRS

At 4 April 2005, Marel informed the market about the effect of transition to IFRS by press release. Particularly, the following areas in the financial statements will affect the income statement and balance sheet of Marel:

Development expenses

In accordance with IAS 38, companies that conduct research and development are required to capitalise those expenses that can be attributed to products that fulfil specific requirements and are likely to return future income. Marel has hitherto charged almost all research and development expenses. During the last 5 years (2000 – 2004), this expense has on average been about 6% of the Group's operating revenue.

The effect of changes to the income statement in 2004 is such that charged development declines from 7.5 million euros to 6.5 million. Intangible assets in the revalued financial statements of 31 December 2004, includes charged development cost for 6.0 million euros.

Goodwill

Acquired goodwill before 1 January 2004 has been charged to the income statement or depreciated on own equity during the purchase year. After that, goodwill has been charged and amortisized over a maximum period of 20 years. With the implementation of IFRS, goodwill will no longer be amortised systematically. Instead, an impairment test will be used for evaluation, and goodwill amortised if determined necessary. At the end of 2004, charged goodwill amounted to 7.7 million euros, which increases to 7.9 million in the revalued financial statements. There was no reason for amortisation of goodwill at the beginning or end of 2004.

Depreciation of fixed assets

Methods for depreciating properties, plants and equipment have changed in that they are depreciated during their estimated lifetime/service life down to their residual value. The depreciation base will therefore be the difference between the purchase price and the estimated residual value, instead of purchase price. The effect of this is that depreciation, particularly real estate, declines in the revalued financial statements from 2.6 million euros to 2.2 million.

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

Notes to the consolidated financial statements

Translation related to subsidiaries

Translation differences created when converting income statements and balance sheets of subsidiaries that are calculated in currencies other than euros, which have operations integrated with the parent company, are now charged to equity capital in the revalued financial statements instead of being charged in the income statement. The effect of the change is that profit increased by a total of about 154 thousand euros in the year 2004.

Notes to the consolidated financial statements

6. Segment information

Business segments
In 2005, the Group is organised on a worldwide basis into three main business segments (industries): (1) Fish, (2) Poultry and (3) Meat.

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

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

	Fish	Poultry	Meat	Unallocated	Group
Total gross segment sales	60.637	31.937	51.947	26.097	170.618
Inter-segment sales	(2.007)	(7.081)	(9.341)	(23.150)	(41.579)
Sales	58.630	24.856	42.606	2.947	129.039
Operating profit					9.721
Finance costs - net					(2.639)
Profit before tax					7.082
Income tax expense					(1.367)
Profit for the period					5.715

The segment results for the year ended 31 December 2004 are as follows:

	Fish	Poultry	Meat	Unallocated	Group
Total gross segment sales	48.276	34.199	35.771	29.523	147.769
Inter-segment sales	(3.494)	(3.694)	(6.687)	(21.593)	(35.468)
Sales	44.782	30.505	29.084	7.930	112.301
Operating profit					12.066
Finance costs - net					(1.768)
Profit before tax					10.298
Tax expense					(2.314)
Profit for the period					7.984

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

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

Secondary reporting format – geographical segments

The Group's three business segments operate in two main geographical areas, even though they are managed on a worldwide basis.

The home country of the Company – which is also the main operating company – is Iceland.

	2005	**2004**
Sales		
Iceland	4.950	3.204
Other countries	124.089	109.097
	129.039	112.301

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

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

	2005	2004
Total assets		
Iceland	80.991	68.938
Other countries	33.899	26.544
	114.890	95.482

Total assets are allocated based on where the assets are located.

	2005	2004
Capital expenditure		
Iceland	5.746	3.102
Other countries	2.817	1.658
	8.563	4.760

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

7. Quarterly results

	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Sales	34.785	30.416	33.911	29.928	29.121
Cost of sales	(23.484)	(20.655)	(22.328)	(19.409)	(18.519)
Gross profit	11.301	9.761	11.583	10.519	10.602
Other operating income	349	246	327	130	180
Selling and marketing expenses	(4.413)	(3.850)	(4.125)	(3.678)	(3.673)
Research and development expenses	(3.014)	(1.683)	(1.614)	(1.694)	(2.087)
Administrative expenses	(2.948)	(2.338)	(2.915)	(2.221)	(2.174)
Profit from operations (EBIT)	1.275	2.136	3.256	3.056	2.848
Finance costs - net	(576)	(778)	(415)	(872)	(596)
Profit before tax	699	1.358	2.841	2.184	2.252
Income tax expense	(120)	(127)	(737)	(383)	(332)
Net worth tax expense	0	0	0	0	(25)
Net profit	579	1.231	2.104	1.801	1.895
Profit before depreciation (EBITDA)	2.764	3.399	4.469	4.180	3.999

8. Finance costs – net

	2005	2004
Interest expense:		
- bank borrowings	(1.932)	(1.368)
- finance leases	(50)	(89)
- other interest expenses	(62)	(43)
	(2.044)	(1.500)
Interest income	149	150
Impairment from available-for-sale investments	(73)	0
Net foreign exchange transaction gains/(losses)	(671)	(418)
	(2.639)	(1.768)

9. Staff costs

Wages	49.469	42.688
Related expenses	5.385	4.372
	54.854	47.060

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

Notes to the consolidated financial statements

	2005	2004
Staff costs analyses as follows in the income statement:		
Cost of sales	33.128	28.637
Selling and marketing expenses	9.123	8.483
Research and development expenses	6.633	4.765
Administrative expenses	5.970	5.175
	54.854	47.060

10. Income tax expense

Current tax	837	538
Deferred tax (Note 22)	530	1.698
	1.367	2.236

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

Profit before tax	7.082	10.298
Tax calculated at domestic tax rates applicable to profits in the respective countries	1.616	2.125
Permanent differences for tax purposes	(91)	207
Utilisation of previously unrecognised tax losses/tax asset not recognized	(158)	(96)
Tax charge	1.367	2.236

The weighted average applicable tax rate was 19,3% (2004: 21,7%).

11. Earnings per share

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

	2005	2004
Net profit attributable to shareholders (EUR 000)	5.715	7.984
Weighted average number of outstanding shares in issue (thousands)	235.851	234.600
Basic earnings per share (EUR cent)	2,42	3,40

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

	2005	2004
Net profit used to determine diluted earnings per share (EUR 000)	5.715	7.984
Weighted average number of outstanding shares in issue (thousands)	235.851	234.600
Adjustments for share options (thousands)	4.561	5.322
Weighted average number of outstanding shares for diluted earnings per share (thousands)	240.412	239.922
Diluted earnings per share (EUR cent)	2,38	3,33

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

12. Dividend per share

The dividends paid in March 2005 and March 2004 were EUR 590 (EUR 0.25 cents per share) and EUR 407 (EUR 0.17 cents per share) respectively.

13. Property, plant and equipment

	Land & buildings	Plant & machinery	Vehicles & equipment	Total
At 1 January 2004				
Cost	27.104	10.369	4.898	42.371
Accumulated depreciation	(1.633)	(5.679)	(2.545)	(9.857)
Net book amount	25.471	4.690	2.353	32.514
Year ended 31 December 2004				
Opening net book amount at 1 January 2004	25.471	4.690	2.353	32.514
Business combination	0	43	34	77
Exchange differences	5	(3)	(27)	(25)
Additions	44	452	1.146	1.642
Disposals	0	(2)	(123)	(125)
Depreciation charge	(410)	(976)	(850)	(2.236)
Closing net book amount	25.110	4.204	2.533	31.847

	Land & buildings	Plant & machinery	Vehicles & equipment	Total
At 31 December 2004				
Cost	27.153	10.963	5.518	43.634
Accumulated depreciation	(2.043)	(6.759)	(2.985)	(11.787)
Net book amount	25.110	4.204	2.533	31.847
Year ended 31 December 2005				
Opening net book amount	25.110	4.204	2.533	31.847
Exchange differences	(21)	156	251	386
Business combinations	0	0	0	0
Additions	743	1.137	1.872	3.752
Disposals	0	(65)	(234)	(299)
Depreciation charge	(423)	(1.023)	(998)	(2.444)
Closing net book amount	25.409	4.409	3.424	33.242
At 31 December 2005				
Cost	27.872	12.002	7.100	46.974
Accumulated depreciation	(2.463)	(7.593)	(3.676)	(13.732)
Net book amount	25.409	4.409	3.424	33.242

	2005	**2004**
Depreciation of property, plant and equipment analyses as follows in the income statement:		
Cost of sales	1.742	1.641
Selling and marketing expenses	355	284
Development expenses	147	134
Administrative expenses	200	177
	2.444	2.236

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

Notes to the consolidated financial statements

14. Intangible assets

	Goodwill	Development costs	Patents	Software	Total
Year ended 31 December 2004					
Opening net book amount	3.408	5.126	368	49	8.951
Business combination				3	3
Exchange differences	2	0	0	1	3
Additions	4.451	2.789	210	38	7.488
Amortisation charge		(1.956)	(224)	(44)	(2.224)
Closing net book amount	7.861	5.959	354	47	14.221
Year ended 31 December 2005					
Opening net book amount	7.861	5.959	354	47	14.221
Exchange differences	(21)	(4)	0	0	(25)
Business combination	1.740				1.740
Additions	0	4.538	199	74	4.811
Amortisation charge	0	(2.401)	(224)	(24)	(2.649)
Closing net book amount	9.580	8.092	329	97	18.098

	2005	**2004**
Amortisation of intangible assets analyses as follows in the income statement:		
Cost of sales	7	14
Selling and marketing expenses	6	46
Development expenses	2.631	2.155
Administrative expenses	5	9
	2.649	2.224

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

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates (3-5%), gross margin (33-44%) and discount rate (5-10%).

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

Calculations of recoverable amounts did not result to impairment of goodwill in the years 2004 and 2005.

15. Inventories

	2005	**2004**
Raw materials	12.712	10.602
Work in progress	4.239	3.980
Finished goods	8.323	6.584
	25.274	21.166

The cost of inventories recognised as expense and included in 'cost of goods sold' amounted to EUR 43.096 (2004: EUR 35.235).

Inventories of EUR 6.461 (2004 : EUR 5.735) have been pledged as security for borrowings.

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

Notes to the consolidated financial statements

16. Production contracts

	2005	2004
Ordered work in process	14.879	12.475
Advances received on ordered work in process	(5.958)	(6.616)
	8.921	5.859

17. Receivables and prepayments

	2005	2004
Current receivables and prepayments:		
Trade receivables	21.233	13.884
Less: Provision for impairment of receivables	(748)	(619)
Trade receivables – net	20.485	13.265
Forward foreign exchange contracts	0	190
Other receivables and prepayments	3.032	2.389
	23.517	15.844

The Group has recognised a loss of EUR 458 (2004: EUR 70) for the impairment of its trade receivables during the year 2005. The loss has been included in 'sales' in the income statement.

18. Cash and cash equivalents

	2005	2004
Cash at bank and in hand	3.880	4.366

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

	2005	2004
Cash and bank balances	3.880	4.366
Bank overdrafts	0	0
	3.880	4.366

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

19. Derivative financial instruments

	31 December 2005		31 December 2004	
	Assets	Liabilities	Assets	Liabilities
Interest-rate swaps – cash flow hedges	0	404		
Forward foreign exchange contracts – cash flow hedges	18			
Total	18	404	0	0
Less non-current portion:				
Interest-rate swaps – cash flow hedges	0	404		
Forward foreign exchange contracts – cash flow hedges	0	0		
	0	404	0	0
Current portion	18	0	0	0

Gains in equity on forward foreign exchange contracts as of 31 December 2005 will be released to the income statement at various dates up to two months from the balance sheet date.

Interest-rate swaps
The notional principal amounts of the outstanding interest-rate swap contracts at year end 2005 were EUR 4.146.

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

Notes to the consolidated financial statements

20. Trade and other payables

	2005	2004
Trade payables	10.916	6.523
Interest rate swaps	0	252
Accruals	2.583	1.541
Deferred income	2.059	4.233
Other payables	9.161	8.569
	24.719	21.118

21. Borrowings

	2005	2004
Non-current:		
Bank borrowings	19.871	21.529
Debentures	4.284	8.776
Finance lease liabilities	726	1.137
	24.881	31.442
Current:		
Bank overdrafts	8.739	3.117
Bank borrowings	4.890	3.427
Debentures	5.174	0
Finance lease liabilities	459	480
	19.262	7.024
Total borrowings	44.143	38.466

The borrowings include secured liabilities (leases and bank borrowings) in a total amount of EUR 39.105 (2004: EUR 31.788). The bank borrowings are secured over certain of the land and buildings of the Group and over certain of the inventories. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Liabilities in currency:	Finance lease liabilities	Other borrowings	Total 2005	Total 2004
Liabilities in CAD	0	608	608	546
Liabilities in CHF	0	0	0	2.486
Liabilities in DKK	76	12.129	12.205	8.023
Liabilities in EUR	967	21.713	22.680	23.166
Liabilities in ISK, index linked		4.854	4.854	0
Liabilities in JPY	0	109	109	618
Liabilities in NOK	0	693	693	568
Liabilities in USD	0	2.582	2.582	2.809
Liabilities in other currency	143	269	412	250
	1.186	42.957	44.143	38.466
Current maturates	(459)	(18.803)	(19.262)	(7.024)
	727	24.154	24.881	31.442

Annual maturates of non-current liabilities:

Year 2007 / 2006	440	2.249	2.689	7.066
Year 2008 / 2007	248	2.253	2.501	2.777
Year 2009 / 2008	39	2.126	2.165	2.393
Year 2010 / 2009	0	2.131	2.131	2.051
Later	0	15.395	15.395	17.155
	727	24.154	24.881	31.442

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

Notes to the consolidated financial statements

22. Deferred income tax

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

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

1 January 2004	173
Exchange differences and changes within the group	184
Income statement charge (Note 10)	2.236
Less current tax	(537)
Tax charged to equity	(41)
End of the year 2004	2.015

1 January 2005	2.015
Exchange differences and changes within the group	(251)
Income statement charge (Note 10)	1.367
Less current tax	(773)
Tax charged to equity	(69)
End of the year 2005	2.289

	2005	2004
The deferred tax charged/(credited) to equity during the year is as follows:		
Fair value reserves in shareholders' equity		
– hedging reserve	(69)	(18)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2005	2004
Deferred tax assets	(1.231)	(1.334)
Deferred tax liabilities	3.520	3.349
	2.289	2.015
Deferred income tax liability (assets) analyses on the following items:		
Non-current assets	3.235	3.042
Hedge reserve	(110)	(41)
Taxable loss carried forward	(1.419)	(1.392)
Other items	583	406
	2.289	2.015

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. Taxable effects of losses amounting to EUR 891 expire in the years 2009-2015.

23. Provisions

Warranty:

At 1 January 2004	491
Changes entered into income statement	135
At 31 December 2004	626

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

At 1 January 2005	626
Changes entered into income statement	168
At 31 December 2005	794

	2005	2004
Analysis of total provisions:		
Current	794	626

24. Contingencies

Contingent liabilities:

At 31 December 2005 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 277 (2004 : EUR 1.688) to third parties.

25. Commitments and insurance

Operating lease commitments – where a group company is the lessee

The Group has made some rental agreements for building, motor vehicles and office equipment, now with the remaining balance of EUR 2.991. The amount will be charged at the relevant rental time of each agreement. The rental agreements will materialise in the years 2006 - 2010.

Insurance

The Group has bought a loss of profit insurance which will cover work stoppage for up to 12 months, based on terms of operation insurance agreement. The insurance benefits amounts up to EUR 47,5 million. The Group insurance value of buildings amounts to EUR 29,7 million, production machinery and equipment including software and office equipment amounts to EUR 23,2 million and inventories to EUR 26,5 million.

26. Share capital

	Number of shares (thousands)	Ordinary shares	Treasury shares	Total
At 1 January 2004	235.769	240.064	(4.295)	235.769
Treasury shares purchased	(13.457)		(13.457)	(13.457)
Treasury shares sold–business combination (Note 31)	3.131		3.131	3.131
Treasury shares sold	7.988		7.988	7.988
At 31 December 2004	233.431	240.064	(6.633)	233.431
Treasury shares purchased	(6.127)		(6.127)	(6.127)
Treasury shares sold	10.967		10.967	10.967
At 31 December 2005	238.271	240.064	(1.793)	238.271

The total authorised number of ordinary shares is 240 million shares (2004 : 240 million shares) with a par value of ISK 1 per share (2004 : ISK 1 per share). All issued shares are fully paid.

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

27. Fair value reserves and other reserves

	Hedging reserve	Cumulative translation adjustment	Total
Balance at 1 January 2004	0	0	0
Cash flow hedges:			
– Fair value gain/(loss) in period	(61)		(61)
– Tax on fair value	41		41
Currency translation differences		(388)	(388)
Balance at 31 December 2004	(20)	(388)	(408)
Cash flow hedges:			
– Fair value gain/(loss) in period	(367)		(367)
– Tax on fair value	110		110
Currency translation differences		890	890
Balance at 31 December 2005	(277)	502	225

28. Cash generated from operations

	2005	2004
Net profit	5.715	7.984
Adjustments for:		
Tax	1.367	2.314
Depreciation	2.444	2.630
Amortisation	2.649	1.831
Impairment charge	73	0
Loss/(gain) on sale of property, plant and equipment	(24)	8
Interest expense and foreign exchange rate differences	3.076	1.339
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
Inventories and production contracts	(4.647)	(4.372)
Trade and other receivables	(6.234)	(693)
Payables	1.217	4.742
Provisions	126	18
Cash generated from operations	5.762	15.801

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2005	2004
Net book amount	298	125
Profit / (loss) on sale of property, plant and equipment	24	(8)
	322	117

29. Investments in other companies

At 1 January 2004	753
Business combination	12
Disposal	(12)
At 31 December 2004 as originally stated	753
Adoption of IAS 32/39 - reclassification in Available-for-sale at 1 January 2005 (note 5)	(753)
Balance at 1 January 2005	0

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

Notes to the consolidated financial statements

30. Available-for-sale investments

At 31 December 2004	0
Impact of IAS 32/39 adoption (note 5)	753
Impairment	(73)
At 1 January 2005 / 31 December 2005	680

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

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

31. Business combination

On 1 April 2004 the Group acquired 100% of the share capital of Póls hf. manufacturer of equipment for the fisheries, meat and poultry industries. The acquired business contributed revenues of EUR 1.795 and net profit of EUR 239 to the Group for the period from 1 April 2004 to 31 December 2004. At year end the Groups acquired the operation of Geba, manufacturer of equipment for slicing salmon fillets. The acquired business did not contribute revenue to the group in the year 2004.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
– Cash paid	3.863
– Direct cost relating to the acquisition	60
– Fair value of shares issued	1.267
	5.190
Fair value of net assets acquired	(739)
Goodwill (Note 14)	4.451

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

Under certain circumstances if operating goals will be reached within three years in Póls hf, maximum EUR 285 has to be paid in addition to the purchase price above. Due to uncertainty at this stage, no liability is raised.

The fair value of the shares issued was based on the published share price.

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

Cash and cash equivalents	83
Property, plant and equipment (Note 13)	79
Investments in other companies (Note 29)	12
Inventories	1.213
Ordered project in process	50
Receivables and prepayments	227
Trade and other payables	(415)
Current tax liabilities	(3)
Borrowings	(507)
Fair value of net assets acquired....	739
Goodwill (Note 14)	4.451
	5.190
Less:	
Discharged by shares issued	(1.267)
Cash and cash equivalents in subsidiary acquired	(83)
Proceeds from borrowings	(1.999)
Cash outflow on acquisition	1.841

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

The fair value of assets and liabilities arising from the acquisitions above amounted to it's book value in accordance with IFRS.

On 1 October 2005 the Group acquired 100% of the share capital of Dantech Food Systems PTE Ltd. manufacturer of freezing equipment for the food processing industry. The acquired business contributed revenues of EUR 3.284 and net profit of EUR 133 to the Group for the period from 1 October 2005 to 31 December 2005.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
– Cash paid	1.931
– Direct cost relating to the acquisition	54
	1.985
Fair value of net assets acquired	(401)
Goodwill (Note 14)	1.584

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

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

The assets and liabilities arising from the acquisition are as follows:	
Cash and cash equivalents	205
Property, plant and equipment (Note 13)	319
Deferred tax asset	167
Inventories	283
Ordered project in process	1.272
Receivables and prepayments	393
Trade and other payables	(1.785)
Borrowings	(453)
Fair value of net assets acquired....	401
Goodwill (Note 14)	1.584
	1.985
Less:	
Cash and cash equivalents in subsidiary acquired	(205)
Proceeds from borrowings	(1.780)
Cash outflow on acquisition	0

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

32. Related party transactions

At the end of December 2005, there are no loans to directors (31 December 2004: EUR nil). In addition there were no transactions carried out (purchases of goods and services) between the group and the directors in the years 2004 and 2005.

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

Management salaries and benefits for the year 2005

	Payroll and benefits	Stock options*	Bought shares acc. to stock options**	Selling rights*	Shares at year-end*
Hörður Arnarson Managing Director	426	971	14	0	1.460
Árni Oddur Þórðarson,					
Chairman of the Board of Directors***.............	0	0	0	0	70.408
Arnar Þór Másson..	10	0	0	0	12
Friðrik Jóhannsson..	10	0	0	0	0
Helgi Magnússon...	0	0	0	0	3.326
Þórólfur Árnason..	10	0	0	0	520
Þorkell Sigurlaugsson					
ex. Chairman of the Board of Directors............	19	0	0	0	113
Bjarni Benediktsson, ex. Board Member...........	10	0	0	0	171
Two alternate Board Members.........................	3	0	0	0	20
Seven Directors in the Parent company...........	1.446	1.740	424		4.117
Thorkild Christiansen, Director of Carnitech.....	171	0	0	0	267
	2.105	2.711	438	0	80.414

*Shares are at nominal value in thousands.
**All stock bought at a rate of ISK 42 pr. share according to stock option agreements. No new stock options granted during the year 2005.
***Shares owned by Eyrir Invest, where Þórðarson is Managing Director.

Selling rights took place in the year 2003 and were part of a buying of 5,2 million shares, at the price ISK 20 pr. share, by a few employees of the company. Parallel to this transaction Marel hf gave the buyers selling right for bought shares to protect them for possible loss due to the transactions. These selling rights expired in the year 2005.

33. Share options

Share options are granted to directors and to employees. The exercise price of the granted options is equal to the market price of the shares on date of the grant (1 January 2001). Options are conditional on the employee completing particular period's service (the vesting period). The options were exercisable starting one year and three months from the grant date; the options have a contractual option term of six years. The group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	Average exercise price in ISK per share	Options (thousands)
At 1 January 2004	42	7.990
Granted		0
Forfeited	42	(260)
Exercised	42	(634)
At 31 December 2004 / 1 January 2005		7.096
Granted		0
Forfeited	42	(53)
Exercised	42	(2.482)
At 31 December 2005	42	4.561

Outstanding options of 4.561 thousand were all exercisable at 31 December 2005. Share options outstanding can be transferred between years but have expiry date at year-end 2007.

Notes to the consolidated financial statements

34. Fees to Auditors

	2005	2004
Audit of financial statements	196	204
Review of interim financial statements	43	52
Other services	90	67
	329	323

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

35. Principal subsidiaries

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

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

Marel hf. Consolidated financial statements 2005. Amounts in thousands of EUR

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