

Marell hf

**Consolidated Financial Statements
for the period January to June, 2004**

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The Board and Managing Director's Report

The Board of Directors and Managing Director of Marel hf hereby ratify the Interim Consolidated Financial Statements of Marel hf for the period January 1 to June 30, 2004 with their signatures.

Gardabaer, August 10, 2004

Þorkell Sigurlaugsson

Arnar Þór Másson

Bjarni Benediktsson

Þórólfur Árnason

Managing Director

Hörður Arnarson

Auditors' report

To the board and shareholders of Marel hf

We have reviewed the interim Financial Statements of Marel hf and subsidiaries for the period January 1 - June 30, 2004. The Consolidated Financial Statements consist of a income statement, a balance sheet, a statement of cash flow, a statement of changes in shareholders' equity, summary of accounting policies and notes. 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 review. The interim Financial Statements of foreign subsidiaries have been reviewed by other auditors.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review we are not aware of any material modifications that should be made to the Consolidated Financial Statements of Marel hf in order for them to present fairly the results of its operations for the period January 1 - June 30, 2004, the financial position at end of period and changes in its cash position in accordance with law and generally accepted accounting standards.

Gardabaer, August 10 2004

PricewaterhouseCoopers hf

Þórir Ólafsson

Ólafur Þór Jóhannesson

Financial Ratios

| | 2004 1.1-30.6 | 2003 1.1-30.6 | 2003 1.1-31.12 | 2002 1.1-31.12 | 2001 1.1-31.12 | 2000 1.1-31.12 |
|---|------------------|------------------|-------------------|-------------------|-------------------|-------------------|
| Operating results | | | | | | |
| Sales | 56.358 | 54.077 | 106.101 | 100.654 | 94.116 | 78.602 |
| Gross profit | 20.931 | 17.739 | 34.961 | - | - | - |
| Profit before depreciation (EBITDA) | 7.362 | 5.447 | 10.129 | 5.712 | 8.432 | 6.675 |
| Profit from operations (EBIT) | 5.702 | 3.711 | 6.568 | 2.278 | 5.979 | 4.528 |
| Net profit (loss) | 3.818 | 2.400 | 3.749 | 50 | 2.106 | (117) |
| Cash flow statement | | | | | | |
| Net cash from operating activities | 4.934 | 4.010 | 4.640 | 1.004 | 1.098 | 3.558 |
| Investing activities | (1.037) | (966) | (1.877) | (17.959) | (12.585) | (13.321) |
| Financing activities | (2.281) | 95 | (1.153) | 16.906 | 4.238 | 16.841 |
| Financial position | | | | | | |
| Total assets | 90.732 | 87.237 | 81.334 | 82.602 | 68.829 | 62.050 |
| Working capital | 19.875 | 11.654 | 17.700 | 12.740 | 14.978 | 22.458 |
| Equity | 29.104 | 24.199 | 25.167 | 22.724 | 23.654 | 23.722 |
| Various figures in proportion to sales | | | | | | |
| Gross profit | 37,1% | 32,8% | 33,0% | | | |
| Selling and marketing expenses | 12,9% | 13,2% | 13,1% | - | - | - |
| Development expenses | 6,4% | 6,8% | 6,8% | - | - | - |
| Administrative expenses | 8,3% | 8,0% | 8,1% | - | - | - |
| Wages and benefits | 40,5% | 40,7% | 41,0% | 43,5% | 40,7% | 40,7% |
| Profit before depreciation (EBITDA) | 13,1% | 10,1% | 9,5% | 5,7% | 9,0% | 8,5% |
| Profit from operations (EBIT) | 10,1% | 6,9% | 6,2% | 2,3% | 6,4% | 5,8% |
| Depreciation/amortization | 2,9% | 3,2% | 3,4% | 3,4% | 2,6% | 2,6% |
| Net profit (loss) | 6,8% | 4,4% | 3,5% | 0,0% | 2,2% | -0,1% |
| Other key ratios | | | | | | |
| Current ratio | 1,6 | 1,3 | 1,7 | 1,4 | 1,6 | 2,0 |
| Quick ratio | 0,8 | 0,8 | 0,8 | 0,7 | 0,8 | 1,3 |
| Equity ratio | 32,1% | 27,7% | 30,9% | 27,5% | 34,4% | 38,2% |
| Return on owners' equity | 30,3% | 21,1% | 16,5% | 0,2% | 9,4% | -1,0% |

Amounts 2000 - 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.

Consolidated Income Statement

| | Notes | 2004 Q2 | 2003 Q2 | 2004 YTD | 2003 YTD |
|---|-------|-----------------|-----------------|-----------------|-----------------|
| Sales | | 31.287 | 30.359 | 56.358 | 54.077 |
| Cost of sales | | <u>(19.537)</u> | <u>(20.324)</u> | <u>(35.427)</u> | <u>(36.338)</u> |
| Gross profit | | 11.750 | 10.035 | 20.931 | 17.739 |
| Other operating income | | 163 | 530 | 325 | 1.090 |
| Selling and marketing expenses | | (3.724) | (3.499) | (7.275) | (7.112) |
| Development expenses | | (1.845) | (1.920) | (3.615) | (3.654) |
| Administrative expenses | | <u>(2.616)</u> | <u>(2.423)</u> | <u>(4.664)</u> | <u>(4.352)</u> |
| Profit from operations | | 3.728 | 2.723 | 5.702 | 3.711 |
| Finance costs - net | 2 | <u>(427)</u> | <u>(154)</u> | <u>(753)</u> | <u>(417)</u> |
| Profit before tax | | 3.301 | 2.569 | 4.949 | 3.294 |
| Income tax expense | 4 | (745) | (826) | (1.092) | (867) |
| Net worth tax expense | | <u>(26)</u> | <u>(8)</u> | <u>(39)</u> | <u>(27)</u> |
| Net profit | | <u>2.530</u> | <u>1.735</u> | <u>3.818</u> | <u>2.400</u> |
| Earnings per share | | | | | |
| Basic earnings per share (EUR cent) | 5 | 1,08 | 0,74 | 1,62 | 1,02 |
| Diluted earnings per share (EUR cent) | 5 | 1,05 | 0,72 | 1,58 | 1,00 |

Consolidated Balance Sheet

| Assets | Notes | 30.6 2004 | 31.12 2003 |
|---|-------|----------------------|----------------------|
| Non-current assets | | | |
| Intangible assets | 7 | 5.885 | 4.482 |
| Property, plant and equipment | 6 | 32.282 | 32.812 |
| Available-for-sale investments | 19 | 765 | 753 |
| Deferred tax assets | 13 | 1.312 | 1.035 |
| | | <u>40.244</u> | <u>39.082</u> |
| Current assets | | | |
| Inventories | 8 | 19.931 | 16.693 |
| Ordered work in process | 9 | 5.242 | 6.064 |
| Receivables and prepayments | 10 | 19.037 | 14.768 |
| Cash and cash equivalents | | 6.278 | 4.727 |
| | | <u>50.488</u> | <u>42.252</u> |
| Total assets | | <u><u>90.732</u></u> | <u><u>81.334</u></u> |
| Shareholders' equity | | | |
| Ordinary shares | | 2.637 | 2.637 |
| Share premium | | 11.137 | 10.794 |
| Treasury shares | | (37) | (48) |
| Fair value and translation reserves | 17 | (1.024) | (1.196) |
| Retained earnings | | 16.391 | 12.980 |
| Total shareholders' equity | | <u>29.104</u> | <u>25.167</u> |
| Liabilities | | | |
| Non-current liabilities | | | |
| Borrowings | 12 | 29.823 | 30.889 |
| Deferred tax liabilities | 13 | 1.192 | 726 |
| | | <u>31.015</u> | <u>31.615</u> |
| Current liabilities | | | |
| Trade and other payables | 11 | 19.276 | 14.309 |
| Current tax liabilities | | 738 | 611 |
| Borrowings | 12 | 9.967 | 9.141 |
| Provisions | 14 | 632 | 491 |
| | | <u>30.613</u> | <u>24.552</u> |
| Total liabilities | | 61.628 | 56.167 |
| Total equity and liabilities | | <u><u>90.732</u></u> | <u><u>81.334</u></u> |

Consolidated Statement of Changes in Shareholders' Equity

| | Notes | Share capital | Share premium | Treasury shares | Fair value and translation reserves | Retained earnings | Total |
|--|-------|---------------|---------------|-----------------|-------------------------------------|-------------------|---------------|
| Balance at 1 January 2003 | | 2.601 | 11.293 | 0 | (681) | 9.511 | 22.724 |
| Currency translation differences | | | | | (515) | | (515) |
| Net (loss) not recognised in net profit | | 0 | 0 | 0 | (515) | 0 | (515) |
| Purchases of treasury shares, net | | | (499) | (12) | | | (511) |
| Dividend relating to 2002 | | | | | | (280) | (280) |
| Net profit | | | | | | 3.749 | 3.749 |
| Transfer of treasury shares | | 36 | | (36) | | | 0 |
| | | <u>36</u> | <u>(499)</u> | <u>(48)</u> | <u>(515)</u> | <u>3.469</u> | <u>2.443</u> |
| Balance at 31 December 2003/ 1 January 2004 | | 2.637 | 10.794 | (48) | (1.196) | 12.980 | 25.167 |
| Cash flow hedges: | | | | | | | |
| – net fair value gain, net of tax | 17 | | | | 72 | | 72 |
| Currency translation differences | 17 | | | | 100 | | 100 |
| Net (loss) not recognised in net profit | | 0 | 0 | 0 | 172 | 0 | 172 |
| Purchases of treasury shares, net | | | (889) | (24) | | | (913) |
| Business combination | 20 | | 1.232 | 35 | | | 1.267 |
| Dividend relating to 2003 | | | | | | (407) | (407) |
| Net profit | | | | | | 3.818 | 3.818 |
| | | <u>0</u> | <u>343</u> | <u>11</u> | <u>172</u> | <u>3.411</u> | <u>3.937</u> |
| Balance at 30 June 2004 | | <u>2.637</u> | <u>11.137</u> | <u>(37)</u> | <u>(1.024)</u> | <u>16.391</u> | <u>29.104</u> |

Consolidated Cash Flow Statement

| | Notes | 2004 YTD | 2003 YTD |
|--|-------|---------------------|---------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 18 | 6.653 | 5.147 |
| Interest paid | | (837) | (990) |
| Tax paid | | <u>(882)</u> | <u>(147)</u> |
| Net cash from operating activities | | 4.934 | 4.010 |
| Cash flows from investing activities | | | |
| Aquisition of subsidiary, net of cash acquired | 20 | (32) | 0 |
| Purchase of property, plant and equipment | 6 | (705) | (947) |
| Purchase of intangibles | | (352) | (177) |
| Proceeds from sale of PPE | | 48 | 91 |
| Loan repayments received | | <u>4</u> | <u>67</u> |
| Net cash used in investing activities | | (1.037) | (966) |
| Cash flows from financing activities | | | |
| Purchase of treasury shares | | (914) | (405) |
| Proceeds from borrowings | | 1.385 | 5.128 |
| Repayments of borrowings | | (2.213) | (3.752) |
| Finance lease principal payments | | (132) | (596) |
| Dividends paid to group shareholders | | <u>(407)</u> | <u>(280)</u> |
| Net cash used in financing activities | | (2.281) | 95 |
| Effects of exchange rate changes | | (65) | 13 |
| Net increase in cash and cash equivalents | | 1.551 | 3.152 |
| Cash and cash equivalents at beginning of year | | 4.727 | 2.891 |
| Cash and cash equivalents at end of period | | <u><u>6.278</u></u> | <u><u>6.043</u></u> |

Accounting Policies

The European Commission has decreed that from January 1st 2005 all listed companies in the European Union must prepare their group accounts using International Financial Reporting Standards (IFRS). Marel has started to adapt its accounts to IFRS, among other things by changing their information systems, internal management processes etc. This is reflected in the presentation of the accounts for the period January to June 2004. Comparative figures have been adjusted to conform with changes in presentation in the current year.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

Basis of preparation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

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 consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See below for the accounting policy on goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Foreign currency translation

Measurement 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 measurement currency"). The consolidated financial statements are presented in euros (EUR), which is the measurement currency of the parent.

Transactions and balances

Foreign currency transactions are translated into the measurement 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 of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Accounting Policies

Group companies

Income statements and cash flows of foreign entities, which do not have integrated operation with that of the parent company, are translated into the Group's reporting currency at average exchange rates for the period and their balance sheets are translated at the exchange rates ruling on 30 June. Exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Income statements and cash flows of foreign entities, which have integrated operation with that of the parent company, are translated into the Group's reporting currency at average exchange rates for the period, except depreciation and amortization which is translated at historical exchange rates, and their balance sheets are translated at the exchange rates ruling on 30 June, except property, plant and equipment and intangible assets which is translated at historical exchange rates. Exchange differences arising from the translation are taken to income statement.

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.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful lives as follows:

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Interest costs on borrowings to finance the construction of property, plant and equipment are expensed.

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 assets of the acquired subsidiary, or operation, at the date of acquisition. 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 amortised using the straight-line method over its estimated useful life. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 20 years.

At each balance sheet date the Group assesses whether there is any indication of impairment. If such indications exist an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

Accounting Policies

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 only if the cost 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 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

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 3 years.

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.

Impairment of long lived assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses 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 carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

Investments

The Group classified its investments in debt and equity securities into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate, are classified as available-for-sale; and are included in non-current assets.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective yield method. Unrealised gain and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. The fair value of investments is based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses.

Accounting Policies

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.

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.

Ordered work in process

Work in process is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions or their ultimate purpose or use.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable. Contract costs are recognised when incurred.

When the outcome of a work in process can be estimated reliably, contract revenue and contract costs are recognised by using the stage of completion method. The stage of completion is measured by reference to the relationship contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Costs incurred in the year in connection with future activity on a contract are excluded and shown as work in process.

Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. 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 carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

Accounting Policies

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

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.

Borrowings

Borrowings are recognised initially at the redemption value.

Deferred income taxes

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 financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

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, associates and joint ventures, 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.

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.

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.

Accounting Policies

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.

Revenue recognition

Revenue comprises the invoiced value for the sale of goods and services net of value-added tax, rebates 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 it is determined that such income will accrue to the Group. Dividends are recognised when the right to receive payment is established.

Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Financial Risk Management

Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain exposures. Risk management is carried out within the group where applicable under policies approved by the Board of Directors.

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 hedge their exposure to foreign currency risk in connection with the measurement currency.

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.

Accounting for derivative financial instruments and hedging activities

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognised in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset (for example, property, plant and equipment) or of 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. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense, under operating profit, in the same periods during which the hedged firm commitment or forecasted transaction affects the income statement (for example, when the forecasted sale takes place).

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the income statement under finance cost.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecasted transaction ultimately is recognised in the income statement. When a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

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. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, both at the 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.

Notes

| 1. Quarterly results | Q2 2004 | Q1 2004 | Q4 2003 | Q3 2003 | Q2 2003 |
|--|---------------------|---------------------|---------------------|------------------|---------------------|
| Profit before depreciation (EBITDA) | 4.566 | 2.796 | 2.646 | 2.036 | 3.598 |
| Depreciation and amortization | (838) | (822) | (924) | (901) | (875) |
| Profit from operations (EBIT) | <u>3.728</u> | <u>1.974</u> | <u>1.722</u> | <u>1.135</u> | <u>2.723</u> |
| Finance costs - net | <u>(427)</u> | <u>(326)</u> | <u>(390)</u> | <u>(851)</u> | <u>(154)</u> |
| Profit before tax | 3.301 | 1.648 | 1.332 | 284 | 2.569 |
| Income tax expense | (745) | (347) | (21) | (222) | (826) |
| Net worth tax expense | <u>(26)</u> | <u>(13)</u> | <u>(15)</u> | <u>(9)</u> | <u>(8)</u> |
| Net profit | <u><u>2.530</u></u> | <u><u>1.288</u></u> | <u><u>1.296</u></u> | <u><u>53</u></u> | <u><u>1.735</u></u> |

2. Finance costs – net

| | YTD 2004 | YTD 2003 |
|---|---------------------|---------------------|
| Interest expense: | | |
| - bank borrowings | (704) | (710) |
| - finance leases | (50) | (123) |
| - other interest expenses | <u>(16)</u> | <u>(114)</u> |
| | <u>(770)</u> | <u>(947)</u> |
| Interest income | 63 | 136 |
| Net foreign exchange transaction gains/(losses) | <u>(49)</u> | <u>394</u> |
| | <u><u>(753)</u></u> | <u><u>(417)</u></u> |

3. Staff costs

| | YTD 2004 | YTD 2003 |
|------------------------|----------------------|----------------------|
| Wages | 20.934 | 20.026 |
| Related expenses | <u>1.884</u> | <u>1.977</u> |
| | <u><u>22.818</u></u> | <u><u>22.003</u></u> |

Staff costs analyses as follows in the income statement:

| | | |
|--------------------------------------|----------------------|----------------------|
| Cost of sales | 13.826 | 13.386 |
| Selling and marketing expenses | 4.151 | 4.147 |
| Development expenses | 2.263 | 2.097 |
| Administrative expenses | <u>2.578</u> | <u>2.373</u> |
| | <u><u>22.818</u></u> | <u><u>22.003</u></u> |

Notes

| 4. Income tax expense | YTD 2004 | YTD 2003 |
|------------------------------|--------------|------------|
| Current tax | 916 | 763 |
| Deferred tax (Note 13) | 176 | 104 |
| | <u>1.092</u> | <u>867</u> |

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

| | | |
|--|--------------|--------------|
| Profit before tax | <u>4.949</u> | <u>3.294</u> |
| Tax calculated at a tax rate of 18% (2003 : 18%) | 891 | 593 |
| Effect of different tax rates in other countries | 212 | 134 |
| Translation differences | (20) | 47 |
| Expenses not deductible for tax purposes | 35 | 98 |
| Utilisation of previously unrecognised tax losses/tax asset not recognized | (26) | (5) |
| Tax charge | <u>1.092</u> | <u>867</u> |

5. Earnings per share

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

| | YTD 2004 | YTD 2003 |
|---|-------------|-------------|
| Net profit attributable to shareholders (EUR 000) | 3.818 | 2.400 |
| Weighted average number of ordinary shares in issue (thousands) | 236.261 | 235.960 |
| Basic earnings per share (EUR cent) | <u>1,62</u> | <u>1,02</u> |

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.

| | YTD 2004 | YTD 2003 |
|---|----------------|----------------|
| Net profit used to determine diluted earnings per share (EUR 000) | <u>3.818</u> | <u>2.400</u> |
| Weighted average number of ordinary shares in issue (thousands) | 236.261 | 235.960 |
| Adjustments for share options (thousands) | 5.253 | 3.789 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | <u>241.514</u> | <u>239.749</u> |
| Diluted earnings per share (EUR cent) | <u>1,58</u> | <u>1,00</u> |

Notes

6. Property, plant and equipment

| | Land & buildings | Plant & machinery | Vehicles & equipment | Total |
|--------------------------------------|------------------|-------------------|----------------------|-----------------|
| Period ended 30 June 2004 | | | | |
| Opening net book amount | 25.471 | 4.775 | 2.864 | 33.110 |
| Transfers to intangible assets | | (31) | (267) | (298) |
| Adjusted opening balance | <u>25.471</u> | <u>4.744</u> | <u>2.597</u> | <u>32.812</u> |
| Business combination | | 46 | 33 | 79 |
| Exchange differences | 13 | 12 | 8 | 33 |
| Additions | (23) | 186 | 542 | 705 |
| Disposals | | (1) | (58) | (59) |
| Depreciation charge | <u>(345)</u> | <u>(496)</u> | <u>(447)</u> | <u>(1.288)</u> |
| Closing net book amount | <u>25.116</u> | <u>4.491</u> | <u>2.675</u> | <u>32.282</u> |
| At 30 June 2004 | | | | |
| Cost | 27.095 | 11.347 | 7.140 | 45.582 |
| Accumulated depreciation | <u>(1.979)</u> | <u>(6.856)</u> | <u>(4.465)</u> | <u>(13.300)</u> |
| Net book amount | <u>25.116</u> | <u>4.491</u> | <u>2.675</u> | <u>32.282</u> |

| | YTD 2004 | YTD 2003 |
|--|--------------|--------------|
| Depreciation of property, plant and equipment analyses as follows in the income statement: | | |
| Cost of sales | 939 | 950 |
| Selling and marketing expenses | 165 | 101 |
| Development expenses | 83 | 115 |
| Administrative expenses | 101 | 126 |
| | <u>1.288</u> | <u>1.292</u> |

7. Intangible assets

| | Goodwill | Development costs | Patents | Software | Total |
|----------------------------------|--------------|-------------------|-------------|-------------|--------------|
| Period ended 30 June 2004 | | | | | |
| Opening net book amount | 3.515 | 499 | 170 | 0 | 4.184 |
| Transfers from PPE | | | | 298 | 298 |
| Adjusted opening balance | <u>3.515</u> | <u>499</u> | <u>170</u> | <u>298</u> | <u>4.482</u> |
| Exchange differences | 6 | | | | 6 |
| Additions | 1.524 | 126 | 98 | 21 | 1.769 |
| Amortisation charge | <u>(93)</u> | <u>(125)</u> | <u>(80)</u> | <u>(74)</u> | <u>(372)</u> |
| Closing net book amount | <u>4.952</u> | <u>500</u> | <u>188</u> | <u>245</u> | <u>5.885</u> |

| | YTD 2004 | YTD 2003 |
|--|------------|------------|
| Amortisation of intangible assets analyses as follows in the income statement: | | |
| Cost of sales | 0 | 28 |
| Selling and marketing expenses | 93 | 122 |
| Development expenses | 205 | 273 |
| Administrative expenses | 74 | 21 |
| | <u>372</u> | <u>444</u> |

Development costs principally comprises internally generated expenditure on major development projects where it is probable that the costs will be recovered through future commercial activity.

Notes

| | 30.6 2004 | 31.12 2003 |
|---|---------------|---------------|
| 8. Inventories | | |
| Raw materials | 11.404 | 9.491 |
| Work in progress | 3.552 | 2.815 |
| Finished goods | 4.975 | 4.387 |
| | <u>19.931</u> | <u>16.693</u> |
| Inventories of EUR 5.735 (2003 : EUR 5.550) have been pledged as security for borrowings. | | |
| 9. Ordered work in process | | |
| Ordered work in process | 17.013 | 15.625 |
| Advances received on ordered work in process | (11.771) | (9.561) |
| | <u>5.242</u> | <u>6.064</u> |
| 10. Receivables and prepayments | | |
| Current receivables and prepayments: | | |
| Trade receivables | 16.917 | 14.131 |
| Less: Provision for impairment of receivables | (854) | (786) |
| Trade receivables – net | 16.063 | 13.345 |
| Forward foreign exchange contracts | 74 | 0 |
| Other receivables and prepayments | 2.900 | 1.423 |
| | <u>19.037</u> | <u>14.768</u> |
| 11. Trade and other payables | | |
| Trade payables | 7.230 | 5.911 |
| Accruals | 900 | 456 |
| Deferred income | 4.783 | 1.191 |
| Other payables | 6.363 | 6.751 |
| | <u>19.276</u> | <u>14.309</u> |
| 12. Borrowings | | |
| Non-current | | |
| Bank borrowings | 20.851 | 21.590 |
| Debentures | 7.630 | 7.737 |
| Finance lease liabilities | 1.342 | 1.562 |
| | <u>29.823</u> | <u>30.889</u> |
| Current | | |
| Bank overdrafts | 4.584 | 3.261 |
| Bank borrowings | 4.603 | 5.063 |
| Debentures | 342 | 390 |
| Finance lease liabilities | 438 | 427 |
| | <u>9.967</u> | <u>9.141</u> |
| Total borrowings | <u>39.790</u> | <u>40.030</u> |

The borrowings include secured liabilities (leases and bank borrowings) in a total amount of EUR 24.699 (2003 : EUR 21.777). 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.

Notes

| | Finance lease liabilities | Other borrowings | Total 30.6 2004 | Total 31.12 2003 |
|--|---------------------------|------------------|-----------------|------------------|
| Liabilities in currency: | | | | |
| Liabilities in DKK | 165 | 9.649 | 9.814 | 8.976 |
| Liabilities in NOK | 0 | 441 | 441 | 0 |
| Liabilities in EUR | 1.496 | 21.833 | 23.329 | 25.379 |
| Liabilities in ISK | 0 | 348 | 348 | 88 |
| Liabilities in JPY | 2 | 1.292 | 1.294 | 1.137 |
| Liabilities in USD | 43 | 4.447 | 4.490 | 4.348 |
| Liabilities in other currency | 74 | 0 | 74 | 102 |
| | <u>1.780</u> | <u>38.010</u> | <u>39.790</u> | <u>40.030</u> |
| Current maturates | (438) | (9.529) | (9.967) | (9.141) |
| | <u>1.342</u> | <u>28.481</u> | <u>29.823</u> | <u>30.889</u> |
| Annual maturates of non-current liabilities: | | | | |
| 1/7 2005 - 30/6 2006 / 2005 | 442 | 5.418 | 5.860 | 2.769 |
| 1/7 2006 - 30/6 2007 / 2006 | 460 | 2.194 | 2.654 | 5.463 |
| 1/7 2007 - 30/6 2008 / 2007 | 428 | 2.347 | 2.775 | 2.402 |
| 1/7 2008 - 30/6 2009 / 2008 | 12 | 2.113 | 2.125 | 2.208 |
| Later | 0 | 16.409 | 16.409 | 18.047 |
| | <u>1.342</u> | <u>28.481</u> | <u>29.823</u> | <u>30.889</u> |

13. Deferred income taxes

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

| | 30.6 2004 | 31.12 2003 |
|--|--------------|--------------|
| The movement on the deferred income tax account is as follows: | | |
| At beginning of year | (309) | (634) |
| Exchange differences | 0 | 15 |
| Income statement charge (Note 4) | 1.092 | 1.110 |
| Less current tax | (916) | (800) |
| Tax charged to equity | 13 | 0 |
| | <u>(120)</u> | <u>(309)</u> |

The deferred tax charged/(credited) to equity during the year is as follows:

| | | |
|---|-------------|----------|
| Fair value reserves in shareholders' equity | | |
| – hedging reserve (Note 17) | (13) | 0 |
| | <u>(13)</u> | <u>0</u> |

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

| | | |
|--------------------------------|------------|------------|
| Deferred tax assets | 1.312 | 1.035 |
| Deferred tax liabilities | (1.192) | (726) |
| | <u>120</u> | <u>309</u> |

Notes

| | 30.6 2004 | 31.12 2003 |
|---|--------------|--------------|
| Deferred income tax liability (assets) analyses on the following items: | | |
| Non-current assets | 1.334 | 887 |
| Hedge reserve | 13 | 0 |
| Taxable loss carried forward | (1.722) | (1.430) |
| Other items | 255 | 234 |
| | <u>(120)</u> | <u>(309)</u> |

14. Provisions

| | | |
|---|------------|------------|
| Warranty: | | |
| At 1 January 2004 | 491 | 447 |
| Changes entered into income statement | 139 | 45 |
| Exchange differences | 2 | (1) |
| | <u>632</u> | <u>491</u> |
| Analysis of total provisions: | | |
| Current | <u>632</u> | <u>491</u> |

15. Contingencies

Contingent liabilities:

At 30 June 2004 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 2,058 (2003 : EUR 1.996) to third parties.

16. 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 1,2 million. The amount will be charged at the relevant rental time of each agreement. The rental agreements will materialise in the years 2004 - 2007.

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 44,7 million. The Group insurance value of buildings amounts to EUR 26,2 million, production machinery and equipment including software and office equipment amounts to EUR 19,3 million and inventories to EUR 19.5 million.

Notes

17. Fair value reserves and other reserves

| | Hedging reserve | Translation reserve | Total |
|--|--------------------|------------------------|----------------|
| Balance at 1 January 2004 | 0 | (1.196) | (1.196) |
| Cash flow hedges: | | | |
| – Fair value gain in period | 85 | | 85 |
| – Tax on fair value gain | (13) | | (13) |
| Currency translation differences | | 100 | 100 |
| | <u>72</u> | <u>(1.096)</u> | <u>(1.024)</u> |

18. Cash generated from operations

| | YTD 2004 | YTD 2003 |
|--|--------------|--------------|
| Net profit | 3.818 | 2.400 |
| Adjustments for: | | |
| Tax | 1.132 | 894 |
| Depreciation and amortisation | 1.660 | 1.735 |
| Loss on sale of property, plant and equipment | 9 | 5 |
| Interest expense and foreign exchange rate differences | 949 | 626 |
| Changes in working capital: | | |
| Inventories and ordered work in process | (1.826) | (1.974) |
| Trade and other receivables | (3.903) | (1.215) |
| Payables | 4.789 | 2.652 |
| Provisions | 25 | 24 |
| Cash generated from operations | <u>6.653</u> | <u>5.147</u> |

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

| | | |
|--|-----------|-----------|
| Net book amount | 57 | 96 |
| Profit / (loss) on sale of property, plant and equipment | (9) | (5) |
| | <u>48</u> | <u>91</u> |

19. Available-for-sale investments

| | 30.6 2004 | 31.12 2003 |
|----------------------------|------------|------------|
| At beginning of year | 753 | 753 |
| Business combination | 12 | 0 |
| | <u>765</u> | <u>753</u> |
| Non-current | <u>765</u> | <u>753</u> |

Available-for-sale investments, comprising principally equity securities, are fair valued annually at the close of business on 30 June. Fair value is estimated by reference to the current market value of similar instruments or by reference to the discounted cash flows of the underlying net assets. There were no disposals or provisions for impairment on available-for-sale investments in 2004 or 2003.

Available-for-sale investments are classified as non-current assets, unless they are expected to be realised within twelve months of the balance sheet date or unless they will need to be sold to raise operating capital.

Notes

20. 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 830 and net profit of EUR 133 to the Group for the period from 1 April 2004 to 30 June 2004.

Details of net assets acquired and goodwill are as follows:

| | |
|---|--------------|
| Purchase consideration: | |
| – Cash paid | 83 |
| – Direct cost relating to the acquisition | 32 |
| – Fair value of shares issued | 1.267 |
| | <u>1.382</u> |
| | |
| Fair value of net assets acquired | <u>60</u> |
| | |
| Goodwill (Note 7) | <u>1.442</u> |

Under certain circumstances if operating goals will be reached within three years, 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 6) | 79 |
| Available-for-sale investments (Note 19) | 12 |
| Inventories | 414 |
| 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 | (60) |
| Goodwill (Note 7) | 1.442 |
| | <u>1.382</u> |
| | |
| Less: | |
| Discharged by shares issued | (1.267) |
| Cash and cash equivalents in subsidiary acquired | (83) |
| Cash outflow on acquisition | <u>32</u> |

There were no acquisitions in the year ended 31 December 2003.

21. Related party transactions

At the end of period, there are no loans to directors (2003: EUR nil).

Directors

In 2003, 12 directors bought at the market share price on that date 5,2 million shares of ISK 20 per share. The company ensures acquisition of the shares at a price that protect them for possible loss due to the transactions.

Notes

22. 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 | 42 | 7.468 |
| Granted | | 0 |
| Forfeited | 42 | (464) |
| Exercised | | 0 |
| At 30 June | 42 | <u>7.004</u> |

Out of the 7.004 thousand outstanding options, 5.253 thousand options were exercisable at 30 June 2004. Share options outstanding can be transferred between years but have expiry date at 30 April 2007.

23. Principal subsidiaries

| | |
|-------------------------------|-----------|
| Marel Australia Pty Ltd | Australia |
| Marel Equipment Inc | Canada |
| Marel Scandinavia A/S | Denmark |
| Marel UK Ltd | UK |
| Marel USA Inc | USA |
| Marel TVM GmbH & Co KG | Germany |
| Marel Deutschland GmbH | Germany |
| Marel Management GmbH | Germany |
| Pols hf | Iceland |
| Carnitech A/S | Denmark |

All subsidiaries are wholly owned. All holdings are in the ordinary share capital of the entity concerned and are unchanged from 2003. In the year 2004, the group established a wholly owned subsidiary in Chile which will be fully operational in third quarter.