

**Marell hf**

**Consolidated interim financial  
statements 30 September 2005**

## **Index**

## **Pages**

The board and managing director's report .....	<b>2</b>
Financial ratios .....	<b>3</b>
Consolidated interim income statement .....	<b>4</b>
Consolidated interim balance sheet .....	<b>5</b>
Consolidated interim statement of changes in shareholders' equity .....	<b>6</b>
Consolidated interim cash flows statement .....	<b>7</b>
Notes to the interim consolidated financial statements .....	<b>8 - 36</b>

## **The board and managing director's report**

The Board of Directors and Managing Director of Marel hf hereby ratify the Interim Financial Statements of Marel hf for the period January 1 to September 30, 2005 with their signatures.

Garðabæ, 3 November, 2005

Árni Oddur Þórðarson

Arnar Þór Másson

Friðrik Jóhannsson

Helgi Magnússon

**Managing Director**

Hörður Arnarson

## Financial ratios

	2005 1.1-30.9	2004 1.1-30.9	2004 1.1-31.12	2003* 1.1-31.12	2002* 1.1-31.12	2001* 1.1-31.12
<b>Operating results</b>						
Sales .....	94.254	83.179	112.301	106.104	100.654	94.116
Gross profit .....	31.861	30.414	41.016	34.617	-	-
Profit before depreciation (EBITDA) .....	12.050	12.527	16.527	10.129	5.712	8.432
Profit from operations (EBIT) .....	8.446	9.218	12.066	6.568	2.278	5.979
Net profit .....	5.136	6.089	7.984	3.749	50	2.106
<b>Cash flow statement</b>						
Net cash from operating activities .....	5.850	9.513	12.404	4.724	1.004	1.098
Investing activities .....	(5.100)	(3.477)	(7.680)	(1.955)	(17.959)	(12.585)
Financing activities .....	699	(5.216)	(5.169)	(1.153)	16.906	4.238
<b>Financial position</b>						
Total assets .....	107.028	92.074	95.482	81.334	82.602	68.829
Working capital .....	16.972	18.084	19.807	17.700	12.740	14.978
Equity .....	37.231	32.035	33.263	25.167	22.724	23.654
<b>Various figures in proportion to sales</b>						
Gross profit .....	33,8%	36,6%	36,5%	32,6%	-	-
Selling and marketing expenses .....	12,4%	12,3%	12,4%	12,8%	-	-
Research and developm. expenses .....	5,3%	5,4%	5,8%	6,8%	-	-
Administrative expenses .....	7,9%	8,3%	8,1%	8,1%	-	-
Wages and benefits .....	40,6%	41,3%	41,9%	41,0%	43,5%	40,7%
Profit before depreciation (EBITDA) .....	12,8%	15,1%	14,7%	9,5%	5,7%	9,0%
Profit from operations (EBIT) .....	9,0%	11,1%	10,7%	6,2%	2,3%	6,4%
Depreciation/amortization .....	3,8%	4,0%	4,0%	3,4%	3,4%	2,6%
Net profit .....	5,4%	7,3%	7,1%	3,5%	0,0%	2,2%
<b>Other key ratios</b>						
Current ratio .....	1,4	1,6	1,7	1,7	1,4	1,6
Quick ratio .....	0,7	0,8	0,7	0,8	0,7	0,8
Equity ratio .....	34,8%	34,8%	34,8%	30,9%	27,5%	34,4%
Return on owners' equity .....	20,6%	29,1%	28,7%	16,5%	0,2%	9,4%

\*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.

## Consolidated interim income statement

	Notes	2005 Q3	2004 Q3	2005 YTD	2004 YTD
Sales .....		30.416	26.821	94.254	83.179
Cost of sales .....		(20.655)	(17.442)	(62.393)	(52.765)
<b>Gross profit</b>		<u>9.761</u>	<u>9.379</u>	<u>31.861</u>	<u>30.414</u>
Other operating income .....		246	93	703	418
Selling and marketing expenses .....		(3.850)	(2.985)	(11.654)	(10.215)
Research and development expenses .....		(1.683)	(1.349)	(4.990)	(4.455)
Administrative expenses .....		(2.338)	(2.305)	(7.474)	(6.944)
<b>Profit from operations</b>		<u>2.136</u>	<u>2.833</u>	<u>8.446</u>	<u>9.218</u>
Finance costs - net .....	8	<u>(778)</u>	<u>(367)</u>	<u>(2.063)</u>	<u>(1.172)</u>
<b>Profit before tax</b>		<u>1.358</u>	<u>2.466</u>	<u>6.383</u>	<u>8.046</u>
Income tax expense .....	10	(127)	(695)	(1.247)	(1.904)
Net worth tax expense .....		<u>0</u>	<u>(14)</u>	<u>0</u>	<u>(53)</u>
<b>Net profit</b>		<u><u>1.231</u></u>	<u><u>1.757</u></u>	<u><u>5.136</u></u>	<u><u>6.089</u></u>
<b>Earnings per share (expressed in EUR cent per share)</b>					
Basic earnings per share .....	11	0,53	0,75	2,21	2,59
Diluted earnings per share .....	11	0,52	0,73	2,15	2,53

The notes on pages 8-36 are an integral part of the consolidated interim financial statements.

## Consolidated interim balance sheet

Assets	Notes	30/9 2005	31/12 2004
<b>Non-current assets</b>			
Property, plant and equipment .....	13	32.284	31.847
Goodwill .....	14	7.841	7.861
Other intangible assets .....	14	7.545	6.360
Investments in other companies .....	28	0	753
Available-for-sale investments .....	29	753	0
Receivables .....		43	92
Deferred income tax assets .....	22	1.309	1.334
		<u>49.775</u>	<u>48.247</u>
<b>Current assets</b>			
Inventories .....	15	24.855	21.166
Production contracts .....	16	5.182	5.859
Receivables and prepayments .....	17	21.795	15.844
Derivative financial instruments .....	19	14	0
Cash and cash equivalents .....	18	5.407	4.366
		<u>57.253</u>	<u>47.235</u>
<b>Total assets</b>		<u><u>107.028</u></u>	<u><u>95.482</u></u>
<b>Shareholders' equity</b>			
Ordinary shares .....	26	2.637	2.637
Treasury shares .....	26	(89)	(75)
Share premium .....		7.998	9.059
Fair value and other reserves .....	27	89	(408)
Retained earnings .....		26.596	22.050
Total shareholders' equity .....		<u>37.231</u>	<u>33.263</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings .....	21	25.500	31.442
Deferred income tax liabilities .....	22	3.552	3.349
Derivative financial instruments .....	19	464	0
		<u>29.516</u>	<u>34.791</u>
<b>Current liabilities</b>			
Trade and other payables .....	20	22.760	19.450
Current tax liabilities .....		567	328
Borrowings .....	21	16.281	7.024
Provisions .....	23	673	626
		<u>40.281</u>	<u>27.428</u>
<b>Total liabilities</b>		69.797	62.219
<b>Total equity and liabilities</b>		<u><u>107.028</u></u>	<u><u>95.482</u></u>

The notes on pages 8-36 are an integral part of the consolidated interim financial statements.

## Consolidated interim statement of changes in shareholders' equity

	Notes	Share capital	Treasury shares	Share premium	Fair value and other reserves	Retained earnings	Total
<b>Balance at 1 January 2004</b>		2.637	(48)	10.794	0	14.473	27.856
Cash flow hedges:							
– net fair value gain/(loss), net of tax .....	27				(15)		(15)
Currency translation differences .....	27				77		77
Net income/(expenses) recognised directly in equity .....		0	0	0	62	0	62
Purchases of treasury shares, net .....			(60)	(2.772)			(2.832)
Business combination .....	31		35	1.232			1.267
Dividend .....						(407)	(407)
Net profit .....						6.089	6.089
		0	(25)	(1.540)	62	5.682	4.179
<b>Balance at 30 September 2004/ 1 October 2004</b>		2.637	(73)	9.254	62	20.155	32.035
Cash flow hedges:							
– net fair value gain/(loss), net of tax .....	27				(5)		(5)
Currency translation differences .....	27				(465)		(465)
Net income/(expenses) recognised directly in equity .....		0	0	0	(470)	0	(470)
Purchases of treasury shares, net .....			(2)	(195)			(197)
Net profit .....						1.895	1.895
		0	(2)	(195)	(470)	1.895	1.228
<b>Balance at 31 December 2004</b>		2.637	(75)	9.059	(408)	22.050	33.263
Adoption of IAS 32 and IAS 39 .....		0	0	0	0	0	0
<b>Balance at 1 January 2005</b>		2.637	(75)	9.059	(408)	22.050	33.263
Cash flow hedges:							
– net fair value gain/(loss), net of tax .....	27				(302)		(302)
Currency translation differences .....	27				799		799
Net income/(expenses) recognised directly in equity .....		0	0	0	497	0	497
Purchases of treasury shares, net .....			(14)	(1.061)			(1.075)
Dividend .....						(590)	(590)
Net profit .....						5.136	5.136
		0	(14)	(1.061)	497	4.546	3.968
<b>Balance at 30 September 2005</b>		2.637	(89)	7.998	89	26.596	37.231

The notes on pages 8-36 are an integral part of the consolidated interim financial statements.

## Consolidated interim cash flow statement

	Notes	2005 YTD	2004 YTD
<b>Cash flows from operating activities</b>			
Cash generated from operations .....	28	7.892	11.836
Interest paid .....		(1.472)	(1.222)
Tax paid .....		(570)	(1.101)
Net cash from operating activities		<u>5.850</u>	<u>9.513</u>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary, net of cash acquired .....		0	(32)
Purchase of property, plant and equipment .....	13	(2.259)	(1.124)
Purchase of intangibles .....		(3.018)	(2.388)
Proceeds from sale of PPE .....		177	67
Net cash used in investing activities		<u>(5.100)</u>	<u>(3.477)</u>
<b>Cash flows from financing activities</b>			
Proceeds from (purchase of) treasury shares, net .....		(1.074)	(2.832)
Proceeds from borrowings .....		5.983	6.509
Repayments of borrowings .....		(3.285)	(8.254)
Finance lease principal payments .....		(335)	(232)
Dividends paid to group shareholders .....		(590)	(407)
Net cash used in financing activities		<u>699</u>	<u>(5.216)</u>
<b>Net increase in cash and cash equivalents</b>		1.449	820
Exchange gains/(losses) on cash and bank overdrafts .....		(408)	(88)
Cash and cash equivalents at beginning of year .....		4.366	4.727
<b>Cash and cash equivalents at end of period</b>	18	<u><u>5.407</u></u>	<u><u>5.459</u></u>
<b>Cash generated from operations</b>			
Net profit .....	28	5.136	6.089
Adjustments for items not affecting cash .....		7.127	6.526
Changes in working capital .....		(4.371)	(779)
		<u>7.892</u>	<u>11.836</u>

The notes on pages 8-36 are an integral part of the consolidated interim financial statements.

## Notes to the consolidated interim 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 interim financial statements have been approved for issue by the board of directors on 3 November 2005.

### 2. Summary of significant accounting policies

#### 2.1 Basis of preparation

These September 2005 interim consolidated financial statements of Marel are for the nine months ended 30 September 2005. They have been prepared in accordance with IAS 34, Interim Financial Reporting and are covered by IFRS 1, International Financial Reporting Standards, First-time Adoption of IFRS, because they are part of the period covered by the Group's first IFRS financial statements for the year ended 31 December 2005. These interim financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations, International Financial Reporting Interpretations Committee, issued and effective or issued and early adopted as at the time of preparing these statements (November 2005). The IFRS standards and IFRIC interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

The policies set out below have been consistently applied to the two years presented except for those relating to the classification and measurement of financial instruments. The Group has made use of the exemption available under IFRS 1 to only apply IAS 32 and IAS 39 from 1 January 2005. The policies applied to financial instruments for 2004 and 2005 are disclosed separately below. Adoption of IAS 32 and 39 only applies to presentation of amounts in the balance sheet. It does not apply to measurement of the amounts.

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 interim 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 interim 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 IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies.

#### 2.2 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 interim 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. Management does not define geographical segments in these interim financial statements.

### 2.4 Foreign currency translation

#### Functional and presentation currency

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

#### Transactions and balances

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

#### Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity (cumulative translation adjustment).

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

## Notes to the consolidated interim financial statements

### 2.5 Property, plant and equipment

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

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

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

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. Borrowing 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. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment (note 2.7).

#### 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.

## Notes to the consolidated interim financial statements

### 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: loans and 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.

#### Loans and receivables

Loans and 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. Loans and 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 gains and losses from investment securities.

## Notes to the consolidated interim financial statements

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 amount of the provision is recognised in the income statement.

## Notes to the consolidated interim 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.

#### 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.

## Notes to the consolidated interim financial statements

### 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 interim 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 42% 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.

## Notes to the consolidated interim financial statements

### 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 interim 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 will be the first annual financial statements that comply with IFRS. These interim financial statements have been prepared as described in note 2.1. The Group has applied IFRS 1 in preparing these consolidated interim financial statements.

Marel transition date is 1 January 2004. The Group prepared its opening IFRS balance sheet at that date. The reporting date of these interim consolidated financial statements is 30 September 2005. The Group's IFRS adoption date is 1 January 2005.

In preparing these interim 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.

## Notes to the consolidated interim financial statements

### (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, 30 September 2004 and 31 December 2004. The following reconciliations provide details of the impact of the transition on:

- Equity at 1 January 2004, 30 September 2004 and 31 December 2004.
- Net income 30 September 2004 and 31 December 2004.
- Equity at 1 January 2005.

### 5.2.1 Summary of equity

	1/1 2004	30/9 2004	31/12 2004
Total equity under local GAAP .....	25.167	28.413	29.359
Capitalisation of development costs .....	4.469	5.167	5.491
Reversal of amortization of goodwill .....		195	282
PPE/intangible assets - recognition of impairment loss and changes in depreciation methods .....	(298)	(22)	(53)
Changes in valuation of inventories .....	(1.000)	(1.073)	(1.103)
Tax adjustments .....	(482)	(645)	(713)
<b>Total equity under IFRS</b>	<b>27.856</b>	<b>32.035</b>	<b>33.263</b>

## Notes to the consolidated interim financial statements

### 5.2.2 Reconciliation of equity at 1 January 2004

Assets	GAAP	Effect of transition to IFRS	IFRS
<b>Non-current assets</b>			
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
	<u>39.082</u>	<u>4.415</u>	<u>43.497</u>
<b>Current assets</b>			
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
	<u>42.252</u>	<u>(1.000)</u>	<u>41.252</u>
<b>Total assets</b>	<u><u>81.334</u></u>	<u><u>3.415</u></u>	<u><u>84.749</u></u>
<b>Shareholders' equity</b>			
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 .....	<u>25.167</u>	<u>2.689</u>	<u>27.856</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings .....	30.889		30.889
Deferred income tax liabilities .....	726	726	1.452
	<u>31.615</u>	<u>726</u>	<u>32.341</u>
<b>Current liabilities</b>			
Trade and other payables .....	14.309		14.309
Current tax liabilities .....	611		611
Borrowings .....	9.141		9.141
Provisions .....	491		491
	<u>24.552</u>	<u>0</u>	<u>24.552</u>
<b>Total liabilities</b>	56.167	726	56.893
<b>Total equity and liabilities</b>	<u><u>81.334</u></u>	<u><u>3.415</u></u>	<u><u>84.749</u></u>

## Notes to the consolidated interim financial statements

### 5.2.3 Reconciliation of equity at 30 September 2004

Assets	GAAP	Effect of transition to IFRS	IFRS
<b>Non-current assets</b>			
Property, plant and equipment .....	32.010	(21)	31.989
Goodwill .....	4.846	88	4.934
Other intangible assets .....	911	5.273	6.184
Investments in other companies .....	753		753
Deferred income tax assets .....	1.560	363	1.923
	<u>40.080</u>	<u>5.703</u>	<u>45.783</u>
<b>Current assets</b>			
Inventories .....	21.233	(1.073)	20.160
Production contracts .....	3.869		3.869
Receivables and prepayments .....	16.803		16.803
Cash and cash equivalents .....	5.459		5.459
	<u>47.364</u>	<u>(1.073)</u>	<u>46.291</u>
<b>Total assets</b>	<u><u>87.444</u></u>	<u><u>4.630</u></u>	<u><u>92.074</u></u>
<b>Shareholders' equity</b>			
Ordinary shares .....	2.637		2.637
Treasury shares .....	(73)		(73)
Share premium .....	9.254		9.254
Fair value and other reserves .....	(1.190)	1.252	62
Retained earnings .....	17.785	2.370	20.155
Total shareholders' equity .....	<u>28.413</u>	<u>3.622</u>	<u>32.035</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings .....	29.342		29.342
Deferred income tax liabilities .....	1.482	1.008	2.490
	<u>30.824</u>	<u>1.008</u>	<u>31.832</u>
<b>Current liabilities</b>			
Trade and other payables .....	17.214		17.214
Current tax liabilities .....	1.053	0	1.053
Borrowings .....	9.329		9.329
Provisions .....	611		611
	<u>28.207</u>	<u>0</u>	<u>28.207</u>
<b>Total liabilities</b>	59.031	1.008	60.039
<b>Total equity and liabilities</b>	<u><u>87.444</u></u>	<u><u>4.630</u></u>	<u><u>92.074</u></u>

## Notes to the consolidated interim financial statements

### 5.2.4 Reconciliation of equity at 31 December 2004

Assets	GAAP	Effect of transition to IFRS	IFRS
<b>Non-current assets</b>			
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
	<u>42.213</u>	<u>6.034</u>	<u>48.247</u>
<b>Current assets</b>			
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
	<u>48.338</u>	<u>(1.103)</u>	<u>47.235</u>
<b>Total assets</b>	<u><u>90.551</u></u>	<u><u>4.931</u></u>	<u><u>95.482</u></u>
<b>Shareholders' equity</b>			
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 .....	19.188	2.862	22.050
Total shareholders' equity .....	<u>29.359</u>	<u>3.904</u>	<u>33.263</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings .....	31.442		31.442
Deferred income tax liabilities .....	2.322	1.027	3.349
	<u>33.764</u>	<u>1.027</u>	<u>34.791</u>
<b>Current liabilities</b>			
Trade and other payables .....	19.450		19.450
Current tax liabilities .....	328		328
Borrowings .....	7.024		7.024
Provisions .....	626		626
	<u>27.428</u>	<u>0</u>	<u>27.428</u>
<b>Total liabilities</b>	<u>61.192</u>	<u>1.027</u>	<u>62.219</u>
<b>Total equity and liabilities</b>	<u><u>90.551</u></u>	<u><u>4.931</u></u>	<u><u>95.482</u></u>

## Notes to the consolidated interim financial statements

### 5.2.5 Reconciliation of equity at 1 January 2005

<b>Assets</b>	<b>IFRS 31/12 2004</b>	<b>Effect of adoption of IAS 32 and 39</b>	<b>IFRS 1/1 2005</b>
<b>Non-current assets</b>			
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
	<u>48.247</u>	<u>0</u>	<u>48.247</u>
<b>Current assets</b>			
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
	<u>47.235</u>	<u>0</u>	<u>47.235</u>
<b>Total assets</b>	<u><u>95.482</u></u>	<u><u>0</u></u>	<u><u>95.482</u></u>
<b>Shareholders' equity</b>			
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 .....	22.050		22.050
Total shareholders' equity .....	<u>33.263</u>	<u>0</u>	<u>33.263</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings .....	31.442		31.442
Deferred income tax liabilities .....	3.349		3.349
	<u>34.791</u>	<u>0</u>	<u>34.791</u>
<b>Current liabilities</b>			
Trade and other payables .....	19.450		19.450
Current tax liabilities .....	328		328
Borrowings .....	7.024		7.024
Provisions .....	626		626
	<u>27.428</u>	<u>0</u>	<u>27.428</u>
<b>Total liabilities</b>	<u>62.219</u>	<u>0</u>	<u>62.219</u>
<b>Total equity and liabilities</b>	<u><u>95.482</u></u>	<u><u>0</u></u>	<u><u>95.482</u></u>

## Notes to the consolidated interim financial statements

### 5.2.6 Reconciliation of net income for nine months ended 30 September 2004

	GAAP	Effect of transition to IFRS	IFRS
Sales .....	83.181	(2)	83.179
Cost of sales .....	<u>(52.916)</u>	<u>151</u>	<u>(52.765)</u>
<b>Gross profit</b>	30.265	149	30.414
Other operating income .....	418		418
Selling and marketing expenses .....	(10.454)	239	(10.215)
Research and development expenses .....	(5.123)	667	(4.456)
Administrative expenses .....	<u>(6.984)</u>	<u>41</u>	<u>(6.943)</u>
<b>Profit from operations</b>	8.122	1.096	9.218
Finance costs - net .....	<u>(1.149)</u>	<u>(23)</u>	<u>(1.172)</u>
<b>Profit before tax</b>	6.973	1.073	8.046
Income tax expense .....	(1.708)	(196)	(1.904)
Net worth tax expense .....	<u>(53)</u>		<u>(53)</u>
<b>Net profit</b>	<u>5.212</u>	<u>877</u>	<u>6.089</u>

### 5.2.7 Reconciliation of net income for year ended 31 December 2004

Sales .....	112.301		112.301
Cost of sales .....	<u>(71.486)</u>	<u>201</u>	<u>(71.285)</u>
<b>Gross profit</b>	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 .....	<u>(9.165)</u>	<u>47</u>	<u>(9.118)</u>
<b>Profit from operations</b>	10.596	1.470	12.066
Finance costs - net .....	<u>(1.879)</u>	<u>111</u>	<u>(1.768)</u>
<b>Profit before tax</b>	8.717	1.581	10.298
Income tax expense .....	(2.024)	(212)	(2.236)
Net worth tax expense .....	<u>(78)</u>		<u>(78)</u>
<b>Net profit</b>	<u>6.615</u>	<u>1.369</u>	<u>7.984</u>

## Notes to the consolidated interim financial statements

### 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 fulfill 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 amortized 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.

#### 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 interim financial statements

### 6. Segment information

#### Business segments

At 30 September 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 six months ended 30 September 2005 are as follows:

	Fish	Poultry	Meat	Unallocated	Group
Total gross segment sales .....	41.542	22.287	42.421	16.925	123.175
Inter-segment sales .....	(1.126)	(4.992)	(7.425)	(15.378)	(28.921)
<b>Sales</b>	<u>40.416</u>	<u>17.295</u>	<u>34.996</u>	<u>1.547</u>	<u>94.254</u>
Operating profit .....					8.446
Finance costs - net .....					<u>(2.063)</u>
<b>Profit before tax</b>					6.383
Income tax expense .....					<u>(1.247)</u>
<b>Profit for the period</b>					<u>5.136</u>

The segment results for the six months ended 30 September 2004 are as follows:

	Fish	Poultry	Meat	Unallocated	Group
Total gross segment sales .....	36.336	28.300	20.775	20.307	105.718
Inter-segment sales .....	(2.729)	(2.711)	(5.444)	(11.655)	(22.539)
<b>Sales</b>	<u>33.607</u>	<u>25.589</u>	<u>15.331</u>	<u>8.652</u>	<u>83.179</u>
Operating profit .....					9.218
Finance costs - net .....					<u>(1.172)</u>
<b>Profit before tax</b>					8.046
Tax expense .....					<u>(1.957)</u>
<b>Profit for the period</b>					<u>6.089</u>

### 7. Quarterly results

	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004
Sales .....	30.416	33.911	29.928	29.121	26.823
Cost of sales .....	(20.655)	(22.328)	(19.409)	(18.519)	(17.444)
<b>Gross profit</b> .....	<u>9.761</u>	<u>11.583</u>	<u>10.519</u>	<u>10.602</u>	<u>9.379</u>
Other operating income .....	246	327	130	180	93
Selling and marketing expenses .....	(3.850)	(4.125)	(3.678)	(3.673)	(2.985)
Research and development expenses .....	(1.683)	(1.614)	(1.694)	(2.087)	(1.349)
Administrative expenses .....	(2.338)	(2.915)	(2.221)	(2.174)	(2.305)
<b>Profit from operations (EBIT)</b> .....	<u>2.136</u>	<u>3.256</u>	<u>3.056</u>	<u>2.848</u>	<u>2.833</u>
Finance costs - net .....	<u>(778)</u>	<u>(415)</u>	<u>(872)</u>	<u>(596)</u>	<u>(367)</u>
<b>Profit before tax</b> .....	1.358	2.841	2.184	2.252	2.466
Income tax expense .....	(127)	(737)	(383)	(332)	(695)
Net worth tax expense .....	0	0	0	(25)	(14)
<b>Net profit</b> .....	<u>1.231</u>	<u>2.104</u>	<u>1.801</u>	<u>1.895</u>	<u>1.757</u>
Profit before depreciation (EBITDA) .....	3.399	4.469	4.180	3.999	3.941

## Notes to the consolidated interim financial statements

### 8. Finance costs – net

	YTD 2005	YTD 2004
Interest expense:		
- bank borrowings .....	(989)	(1.052)
- finance leases .....	(27)	(62)
- other interest expenses .....	(487)	(19)
	<u>(1.503)</u>	<u>(1.133)</u>
Interest income .....	69	95
Net foreign exchange transaction gains/(losses) .....	(629)	(134)
	<u>(2.063)</u>	<u>(1.172)</u>

### 9. Staff costs

Wages .....	34.459	31.550
Related expenses .....	3.835	2.803
	<u>38.294</u>	<u>34.353</u>

Staff costs analyses as follows in the income statement:

Cost of sales .....	23.473	20.868
Selling and marketing expenses .....	6.985	6.117
Research and development expenses .....	4.082	3.310
Administrative expenses .....	3.754	4.058
	<u>38.294</u>	<u>34.353</u>

### 10. Income tax expense

Current tax .....	815	1.481
Deferred tax (Note 22) .....	432	423
	<u>1.247</u>	<u>1.904</u>

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

Profit before tax .....	<u>6.383</u>	<u>8.046</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries .....	1.419	1.954
Permanent differences for tax purposes .....	111	0
Utilisation of previously unrecognised tax losses/tax asset not recognized .....	(283)	(50)
Tax charge .....	<u>1.247</u>	<u>1.904</u>

The weighted average applicable tax rate was 19,5% (2004: 23,7%).

### 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.

	YTD 2005	YTD 2004
Net profit attributable to shareholders (EUR 000) .....	5.136	6.089
Weighted average number of outstanding shares in issue (thousands) .....	232.908	234.699
Basic earnings per share (EUR cent) .....	<u>2,21</u>	<u>2,59</u>

## Notes to the consolidated interim financial statements

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 2005	YTD 2004
Net profit used to determine diluted earnings per share (EUR 000) .....	5.136	6.089
Weighted average number of outstanding shares in issue (thousands) .....	232.908	234.699
Adjustments for share options (thousands) .....	5.976	5.910
Weighted average number of outstanding shares for diluted earnings per share (thousands) .....	238.884	240.609
Diluted earnings per share (EUR cent) .....	2,15	2,53

### 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
<b>At 1 January 2004</b>				
Cost .....	27.104	10.369	4.898	42.371
Accumulated depreciation .....	(1.633)	(5.679)	(2.545)	(9.857)
Net book amount .....	<u>25.471</u>	<u>4.690</u>	<u>2.353</u>	<u>32.514</u>
<b>Nine months ended 30 September 2004</b>				
Opening net book amount at 1 January 2004 .....	25.471	4.690	2.353	32.514
Business combination .....	0	43	34	77
Exchange differences .....	4	8	15	27
Additions .....	(23)	352	785	1.114
Disposals .....	0	(1)	(75)	(76)
Depreciation charge .....	(307)	(728)	(632)	(1.667)
Closing net book amount .....	<u>25.145</u>	<u>4.364</u>	<u>2.480</u>	<u>31.989</u>
<b>Three months ended 31 December 2004</b>				
Opening net book amount .....	25.145	4.364	2.480	31.989
Business combination .....	0	0	0	0
Exchange differences .....	1	(11)	(42)	(52)
Additions .....	67	100	361	528
Disposals .....	0	(1)	(48)	(49)
Depreciation charge .....	(103)	(248)	(218)	(569)
Closing net book amount .....	<u>25.110</u>	<u>4.204</u>	<u>2.533</u>	<u>31.847</u>

## Notes to the consolidated interim financial statements

	Land & buildings	Plant & machinery	Vehicles & equipment	Total
<b>At 31 December 2004</b>				
Cost .....	27.153	10.963	5.518	43.634
Accumulated depreciation .....	(2.043)	(6.759)	(2.985)	(11.787)
Net book amount .....	<u>25.110</u>	<u>4.204</u>	<u>2.533</u>	<u>31.847</u>
<b>Nine months ended 30 September 2005</b>				
Opening net book amount .....	25.110	4.204	2.533	31.847
Exchange differences .....	(20)	17	92	89
Additions .....	645	414	1.208	2.267
Disposals .....	0	0	(147)	(147)
Depreciation charge .....	(317)	(748)	(707)	(1.772)
Closing net book amount .....	<u>25.418</u>	<u>3.887</u>	<u>2.979</u>	<u>32.284</u>
<b>At 30 September 2005</b>				
Cost .....	27.774	11.419	6.376	45.569
Accumulated depreciation .....	(2.356)	(7.532)	(3.397)	(13.285)
Net book amount .....	<u>25.418</u>	<u>3.887</u>	<u>2.979</u>	<u>32.284</u>

	YTD 2005	YTD 2004
Depreciation of property, plant and equipment analyses as follows in the income statement:		
Cost of sales .....	1.292	1.227
Selling and marketing expenses .....	239	211
Development expenses .....	107	98
Administrative expenses .....	134	131
	<u>1.772</u>	<u>1.667</u>

### 14. Intangible assets

	Goodwill	Development costs	Patents	Software	Total
<b>Nine months ended 30 September 2004</b>					
Opening net book amount .....	3.408	5.126	368	49	8.951
Exchange differences .....	0	1	0	1	2
Additions .....	1.526	2.091	152	38	3.807
Amortisation charge .....	<u>0</u>	<u>(1.467)</u>	<u>(142)</u>	<u>(33)</u>	<u>(1.642)</u>
Closing net book amount .....	<u>4.934</u>	<u>5.751</u>	<u>378</u>	<u>55</u>	<u>11.118</u>
<b>Three months ended 31 December 2004</b>					
Opening net book amount .....	4.934	5.751	378	55	11.118
Business combination .....				3	3
Exchange differences .....	2	(1)	0	0	1
Additions .....	2.925	698	58	0	3.681
Amortisation charge .....	<u>0</u>	<u>(489)</u>	<u>(82)</u>	<u>(11)</u>	<u>(582)</u>
Closing net book amount .....	<u>7.861</u>	<u>5.959</u>	<u>354</u>	<u>47</u>	<u>14.221</u>
<b>Nine months ended 30 September 2005</b>					
Opening net book amount .....	7.861	5.959	354	47	14.221
Exchange differences .....	(20)	(2)	0	1	(21)
Additions .....	0	2.870	148	0	3.018
Amortisation charge .....	<u>0</u>	<u>(1.652)</u>	<u>(162)</u>	<u>(18)</u>	<u>(1.832)</u>
Closing net book amount .....	<u>7.841</u>	<u>7.175</u>	<u>340</u>	<u>30</u>	<u>15.386</u>

## Notes to the consolidated interim financial statements

	YTD 2005	YTD 2004
Amortisation of intangible assets analyses as follows in the income statement:		
Cost of sales .....	5	11
Selling and marketing expenses .....	4	8
Development expenses .....	1.819	1.617
Administrative expenses .....	4	6
	<u>1.832</u>	<u>1.642</u>

### 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 certain assumptions.

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

Calculations of recoverable amounts did not result to impairment of goodwill in the year 2004 and in the first nine months of 2005.

## 15. Inventories

	30/9 2005	31/12 2004
Raw materials .....	13.291	10.602
Work in progress .....	4.449	3.980
Finished goods .....	7.115	6.584
	<u>24.855</u>	<u>21.166</u>

Inventories of EUR 6.390 (2004 : EUR 5.735) have been pledged as security for borrowings.

## 16. Production contracts

Ordered work in process .....	18.628	12.475
Advances received on ordered work in process .....	(13.446)	(6.616)
	<u>5.182</u>	<u>5.859</u>

## 17. Receivables and prepayments

### Current receivables and prepayments:

Trade receivables .....	19.404	13.884
Less: Provision for impairment of receivables .....	(609)	(619)
Trade receivables – net .....	18.795	13.265
Forward foreign exchange contracts .....	0	190
Other receivables and prepayments .....	3.000	2.389
	<u>21.795</u>	<u>15.844</u>

## Notes to the consolidated interim financial statements

<b>18. Cash and cash equivalents</b>	<b>30/9 2005</b>	<b>31/12 2004</b>
Cash at bank and in hand .....	<u>5.407</u>	<u>4.366</u>

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

Cash and bank balances .....	5.407	4.366
Bank overdrafts .....	<u>0</u>	<u>0</u>
	<u>5.407</u>	<u>4.366</u>

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

## 19. Derivative financial instruments

	30 September 2005		31 December 2004	
	Assets	Liabilities	Assets	Liabilities
Interest-rate swaps – cash flow hedges .....	0	464		
Forward foreign exchange contracts – cash flow hedges .....	14			
Total .....	<u>14</u>	<u>464</u>	<u>0</u>	<u>0</u>
Less non-current portion: .....				
Interest-rate swaps – cash flow hedges .....	0	464		
Forward foreign exchange contracts – cash flow hedges .....	0	0		
	<u>0</u>	<u>464</u>	<u>0</u>	<u>0</u>
Current portion .....	<u>14</u>	<u>0</u>	<u>0</u>	<u>0</u>

Gains in equity on forward foreign exchange contracts as of 30 September 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 30 September were EUR 4.152.

<b>20. Trade and other payables</b>	<b>30/9 2005</b>	<b>31/12 2004</b>
Trade payables .....	8.225	6.523
Interest rate swaps .....	0	252
Accruals .....	1.580	1.541
Deferred income .....	5.871	4.233
Other payables .....	<u>7.084</u>	<u>6.901</u>
	<u>22.760</u>	<u>19.450</u>

## 21. Borrowings

Non-current:

Bank borrowings .....	20.412	21.529
Debentures .....	4.294	8.776
Finance lease liabilities .....	<u>794</u>	<u>1.137</u>
	25.500	31.442

Current:

Bank overdrafts .....	5.743	3.117
Bank borrowings .....	4.992	3.427
Debentures .....	5.078	0
Finance lease liabilities .....	<u>468</u>	<u>480</u>
	16.281	7.024

Total borrowings .....	<u>41.781</u>	<u>38.466</u>
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## Notes to the consolidated interim financial statements

The borrowings include secured liabilities (leases and bank borrowings) in a total amount of EUR 36.741 (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 30/9 2005	Total 31/12 2004
Liabilities in CAD .....	0	604	604	546
Liabilities in CHF .....	0	0	0	2.486
Liabilities in DKK .....	88	10.379	10.467	8.023
Liabilities in EUR .....	1.057	22.174	23.231	23.166
Liabilities in ISK, index linked .....		4.752	4.752	0
Liabilities in JPY .....	0	105	105	618
Liabilities in NOK .....	0	566	566	568
Liabilities in USD .....	0	1.939	1.939	2.809
Liabilities in other currency .....	117	0	117	250
	<u>1.262</u>	<u>40.519</u>	<u>41.781</u>	<u>38.466</u>
Current maturates .....	(468)	(15.813)	(16.281)	(7.024)
	<u>794</u>	<u>24.706</u>	<u>25.500</u>	<u>31.442</u>
Annual maturates of non-current liabilities:				
Period from 1 Oct. 2006 to 30 Sept. 2007 / Year 2006 .....	480	2.328	2.808	7.066
Period from 1 Oct. 2007 to 30 Sept. 2008 / Year 2007 .....	314	2.364	2.678	2.777
Period from 1 Oct. 2008 to 30 Sept. 2009 / Year 2008 .....	0	2.143	2.143	2.393
Period from 1 Oct. 2009 to 30 Sept. 2010 / Year 2009 .....	0	2.086	2.086	2.051
Later .....	0	15.785	15.785	17.155
	<u>794</u>	<u>24.706</u>	<u>25.500</u>	<u>31.442</u>

## 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 .....	(12)
Income statement charge (Note 10) .....	1.904
Less current tax .....	(1.480)
Tax charged to equity .....	(18)
End of the nine months period 30 September 2004 .....	<u>567</u>
1 October 2004 .....	567
Exchange differences and changes within the group .....	196
Income statement charge .....	332
Less current tax .....	943
Tax charged to equity .....	(23)
End of the three months period 31 December 2004 .....	<u>2.015</u>
1 January 2005 .....	2.015
Exchange differences and changes within the group .....	(98)
Income statement charge (Note 10) .....	1.247
Less current tax .....	(618)
Tax charged to equity .....	(303)
End of the nine months period 30 September 2005 .....	<u>2.243</u>

## Notes to the consolidated interim financial statements

	YTD 2005	YTD 2004
The deferred tax charged/(credited) to equity during the year is as follows:		
Fair value reserves in shareholders' equity		
– hedging reserve .....	<u>(303)</u>	<u>(18)</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:

	30/9 2005	31/12 2004
Deferred tax assets .....	(1.309)	(1.334)
Deferred tax liabilities .....	<u>3.552</u>	<u>3.349</u>
	<u>2.243</u>	<u>2.015</u>
Deferred income tax liability (assets) analyses on the following items:		
Non-current assets .....	2.877	3.042
Hedge reserve .....	(130)	(41)
Taxable loss carried forward .....	(873)	(1.392)
Other items .....	<u>369</u>	<u>406</u>
	<u>2.243</u>	<u>2.015</u>

### 23. Provisions

Warranty:		
At 1 January 2004 .....		491
Changes entered into income statement .....		118
Exchange differences .....		<u>2</u>
At 30 September 2004 .....		<u>611</u>
At 1 October 2004 .....		611
Changes entered into income statement .....		17
Exchange differences .....		<u>(2)</u>
At 31 December 2004 .....		<u>626</u>
At 1 January 2005 .....		626
Changes entered into income statement .....		47
At 30 September 2005 .....		<u>673</u>
	<b>30/9 2005</b>	<b>31/12 2004</b>
Analysis of total provisions:		
Current .....	<u>673</u>	<u>626</u>

### 24. Contingencies

Contingent liabilities:

At 30 September 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 275 (2004 : EUR 1.688) to third parties.

## Notes to the consolidated interim financial statements

### 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 977. The amount will be charged at the relevant rental time of each agreement. The rental agreements will materialise in the years 2005 - 2009.

#### 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 50 million. The Group insurance value of buildings amounts to EUR 29,6 million, production machinery and equipment including software and office equipment amounts to EUR 23 million and inventories to EUR 24,9 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 .....	(8.566)		(8.566)	(8.566)
Treasury shares sold—business combination (Note 31) .....	3.131		3.131	3.131
Treasury shares sold .....	3.294		3.294	3.294
At 30 September 2004 .....	233.628	240.064	(6.436)	233.628
Treasury shares sold .....	4.694		4.694	4.694
Treasury shares purchased .....	(4.891)		(4.891)	(4.891)
At 31 December 2004 .....	233.431	240.064	(6.633)	233.431
Treasury shares purchased .....	(5.055)		(5.055)	(5.055)
Treasury shares sold .....	4.010		4.010	4.010
At 30 September 2005 .....	232.386	240.064	(7.678)	232.386

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.

### 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 .....	(33)		(33)
– Tax on fair value .....	18		18
Currency translation differences .....		77	77
Balance at 30 September 2004 .....	(15)	77	62
Cash flow hedges:			
– Fair value gain/(loss) in period .....	(28)		(28)
– Tax on fair value .....	23		23
Currency translation differences .....		(465)	(465)
Balance at 31 December 2004 .....	(20)	(388)	(408)
Cash flow hedges:			
– Fair value gain/(loss) in period .....	(388)		(388)
– Tax on fair value .....	86		86
Currency translation differences .....		799	799
Balance at 30 September 2005 .....	(322)	411	89

## Notes to the consolidated interim financial statements

<b>28. Cash generated from operations</b>	YTD 2005	YTD 2004
Net profit .....	5.136	6.089
Adjustments for:		
Tax .....	1.247	1.957
Depreciation .....	1.771	1.667
Amortisation .....	1.832	1.642
Loss/(gain) on sale of property, plant and equipment .....	(30)	10
Interest expense and foreign exchange rate differences .....	2.307	1.250
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
Inventories and production contracts .....	(2.215)	(1.708)
Trade and other receivables .....	(5.117)	(1.235)
Payables .....	2.928	2.115
Provisions .....	33	49
Cash generated from operations .....	<u>7.892</u>	<u>11.836</u>
In the cash flow statement, proceeds from sale of property, plant and equipment comprise:		
Net book amount .....	147	77
Profit / (loss) on sale of property, plant and equipment .....	30	(10)
	<u>177</u>	<u>67</u>

## 29. Investments in other companies

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

## 30. Available-for-sale investments

At 31 December 2004 .....	0
Impact of IAS 32/39 adoption (note 5) .....	<u>753</u>
At 1 January 2005 / 30 September 2005 .....	<u>753</u>

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

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

## Notes to the consolidated interim financial statements

### 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.....	<u>1.267</u>
	5.190
Fair value of net assets acquired.....	<u>(739)</u>
Goodwill (Note 14).....	<u>4.451</u>

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition 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.....	<u>(507)</u>
Fair value of net assets acquired....	739
Goodwill (Note 14).....	<u>4.451</u>
	5.190

Less:

Discharged by shares issued.....	(1.267)
Cash and cash equivalents in subsidiary acquired.....	(83)
Proceeds from borrowings.....	<u>(1.999)</u>
Cash outflow on acquisition .....	<u>1.841</u>

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

There were no acquisitions in the period from 1 January 2005 to 30 September 2005.

## Notes to the consolidated interim financial statements

### 32. Related party transactions

At the end of September 2005, there are no loans to directors (31 December 2004: 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.

### 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 / 2005 .....	42	7.096
Granted .....		0
Forfeited .....	42	10
Exercised .....		<u>(1.130)</u>
At 30 September 2005 .....	42	<u>5.976</u>

Outstanding options of 5.976 thousand were all exercisable at 30 September 2005. Share options outstanding can be transferred between years but have expiry date at year-end 2007.

### 34. Principal subsidiaries

Marel Australia Pty Ltd .....	Australia
Marel Carnitech (Thailand) .....	Thailand
Marel Chile .....	Chile
Marel Equipment Inc .....	Canada
Marel Russland .....	Russia
Marel Spain .....	Spain
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 2004 except for Marel Russland and Marel Spain were established in 2005 and Marel Carnitech (Thailand) was transferred from Carnitech A/S to Marel hf in the year 2005.