

**Marell hf**

**Consolidated interim financial  
statements 30 June 2006**

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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 Financial Statements of Marel hf for the period January 1 to June 30, 2006 with their signatures.

Garðabæ, 8 August, 2006

Árni Oddur Þórðarson

Arnar Þór Másson

Friðrik Jóhannsson

Helgi Magnússon

Margrét Jónsdóttir

### **Managing Director**

Hörður Arnarson

## Auditors' review report

We have reviewed the consolidated interim balance sheet of Marel hf and its subsidiaries as of 30 June 2006 and the related interim statements of income, changes in shareholders' equity, cash flows and the accompanying notes for the six months then ended. These interim statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated interim financial statements are the responsibility of the company's management. Our responsibility is to issue a report on these consolidated interim financial statements based on our review.

We conducted our review in accordance with the International Standard of review engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance about whether the consolidated interim financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not give a true and fair view in accordance with International Accounting Standard 34 "Interim financial Reporting".

Garðabæ, 8 August 2006

**PricewaterhouseCoopers hf**

Ólafur Þór Jóhannesson

Þórir Ólafsson

## Financial ratios

	2006 1.1-30.6	2005 1.1-30.6	2005 1.1-31.12	2004 1.1-31.12	2003* 1.1-31.12	2002* 1.1-31.12
<b>Operating results</b>						
Sales .....	79.106	63.838	129.039	112.301	106.104	100.654
Gross profit .....	26.234	22.436	43.162	41.016	34.617	-
Profit before depreciation (EBITDA) .....	7.855	8.649	14.814	16.527	10.129	5.712
Profit from operations (EBIT) .....	4.778	6.310	9.721	12.066	6.568	2.278
Net profit .....	1.348	3.905	5.715	7.984	3.749	50
<b>Cash flow statement</b>						
Net cash from operating activities .....	(6.654)	2.712	2.987	13.207	4.724	1.004
Investing activities .....	(33.523)	(3.634)	(10.180)	(6.389)	(1.955)	(17.959)
Financing activities .....	72.254	797	7.210	(7.263)	(1.153)	16.906
<b>Financial position</b>						
Total assets .....	193.007	104.774	114.890	95.482	81.334	82.602
Working capital .....	57.630	18.028	16.557	19.807	17.700	12.740
Equity .....	40.378	37.048	41.032	31.595	25.167	22.724
<b>Various figures in proportion to sales</b>						
Gross profit .....	33,2%	35,1%	33,4%	36,5%	32,6%	-
Selling and marketing expenses .....	13,5%	12,1%	12,5%	12,4%	12,8%	-
Research and development expenses .....	5,3%	5,0%	6,2%	5,8%	6,8%	-
Administrative expenses .....	9,0%	8,9%	8,1%	8,1%	8,1%	-
Wages and benefits .....	44,2%	40,8%	42,5%	41,9%	41,0%	43,5%
Profit before depreciation (EBITDA) .....	9,9%	13,5%	11,5%	14,7%	9,5%	5,7%
Profit from operations (EBIT) .....	6,0%	9,9%	7,5%	10,7%	6,2%	2,3%
Depreciation/amortization .....	3,9%	3,7%	3,9%	4,0%	3,4%	3,4%
Net profit .....	1,7%	6,1%	4,4%	7,1%	3,5%	0,0%
<b>Other key ratios</b>						
Current ratio .....	2,0	1,5	1,4	1,6	1,7	1,4
Quick ratio .....	1,2	0,6	0,6	0,7	0,8	0,7
Equity ratio .....	20,9%	35,4%	35,7%	33,1%	30,9%	27,5%
Return on owners' equity .....	6,6%	23,5%	18,1%	30,5%	16,5%	0,2%
Return on total assets .....	1,8%	7,8%	5,4%	9,0%	4,6%	0,1%
Earnings to price last 12 months .....	0,02	0,04	0,03	0,06	0,05	0,00
Price to earnings (P/E) last 12 months .....	55,4	23,8	36,7	17,7	19,7	990,0

\*Amounts 2002-2003 are not in conformity with IFRS.

## Consolidated interim income statement

	Notes	2006 Q2	2005 Q2	2006 YTD	2005 YTD
Sales .....	5	46.639	33.910	79.106	63.838
Cost of sales .....		(30.788)	(22.193)	(52.872)	(41.402)
<b>Gross profit</b>		<u>15.851</u>	<u>11.717</u>	<u>26.234</u>	<u>22.436</u>
Other operating income .....		290	327	564	457
Selling and marketing expenses .....		(5.852)	(4.076)	(10.708)	(7.694)
Research and development expenses .....		(2.501)	(1.602)	(4.168)	(3.216)
Administrative expenses .....		(3.464)	(3.112)	(7.144)	(5.673)
<b>Profit from operations</b>		<u>4.324</u>	<u>3.254</u>	<u>4.778</u>	<u>6.310</u>
Finance costs - net .....	7	(2.013)	(413)	(1.872)	(1.285)
Share of results of associates .....	28	(715)	0	(715)	0
<b>Profit before tax</b>		<u>1.596</u>	<u>2.841</u>	<u>2.191</u>	<u>5.025</u>
Income tax expense .....	9	(799)	(737)	(843)	(1.120)
<b>Net profit</b>		<u><u>797</u></u>	<u><u>2.104</u></u>	<u><u>1.348</u></u>	<u><u>3.905</u></u>
<b>Earnings per share (expressed in EUR cent per share)</b>					
Basic earnings per share .....	10	0,34	0,90	0,57	1,67
Diluted earnings per share .....	10	0,33	0,88	0,56	1,63

The notes on pages 9-30 are an integral part of the consolidated financial statements.

## Consolidated interim balance sheet

Assets	Notes	30/6 2006	31/12 2005
<b>Non-current assets</b>			
Property, plant and equipment .....	12	40.563	33.242
Goodwill .....	13	18.609	9.580
Other intangible assets .....	13	10.673	8.518
Investments in associates .....	28	0	0
Available-for-sale investments .....	29	680	680
Receivables .....	31	4.566	29
Derivative financial instruments .....	18	111	0
Deferred income tax assets .....	21	1.692	1.231
		<u>76.894</u>	<u>53.280</u>
<b>Current assets</b>			
Inventories .....	14	35.440	25.274
Production contracts .....	15	10.019	8.921
Receivables and prepayments .....	16	34.973	23.517
Derivative financial instruments .....	18	0	18
Cash and cash equivalents .....	17	35.681	3.880
		<u>116.113</u>	<u>61.610</u>
<b>Total assets</b>		<u><u>193.007</u></u>	<u><u>114.890</u></u>
<b>Shareholders' equity</b>			
Ordinary shares .....	25	2.637	2.637
Treasury shares .....	25	(12)	(8)
Share premium .....		12.410	12.671
Fair value and other reserves .....	26	(911)	225
Retained earnings .....		26.254	25.507
Total shareholders' equity .....		<u>40.378</u>	<u>41.032</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings .....	20	90.266	24.881
Deferred income tax liabilities .....	21	3.880	3.520
Derivative financial instruments .....	18	0	404
		<u>94.146</u>	<u>28.805</u>
<b>Current liabilities</b>			
Trade and other payables .....	19	35.801	24.719
Derivative financial instruments .....	18	759	0
Current tax liabilities .....		935	278
Borrowings .....	20	19.941	19.262
Provisions .....	22	1.047	794
		<u>58.483</u>	<u>45.053</u>
<b>Total liabilities</b>		152.629	73.858
<b>Total equity and liabilities</b>		<u><u>193.007</u></u>	<u><u>114.890</u></u>

The notes on pages 9-30 are an integral part of the consolidated 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 2005</b>		2.637	(75)	9.059	(408)	20.382	31.595
Cash flow hedges:							
– net fair value gain/(loss), net of tax .....	26				(202)		(202)
Currency translation differences .....	26				753		753
Net income/(expenses) recognised directly in equity .....		0	0	0	551	0	551
Sale (purchases) of treasury shares, net .....			2	(83)			(81)
Dividend .....						(590)	(590)
Net profit .....						3.905	3.905
		0	2	(83)	551	3.315	3.785
<b>Balance at 30 June 2005/ 1 July 2005</b>		2.637	(73)	8.976	143	23.697	35.380
Cash flow hedges:							
– net fair value gain/(loss), net of tax .....	26				(55)		(55)
Currency translation differences .....	26				137		137
Net income/(expenses) recognised directly in equity .....		0	0	0	82	0	82
Purchases of treasury shares, net .....			65	3.695			3.760
Net profit .....						1.810	1.810
		0	65	3.695	82	1.810	5.652
<b>Balance at 31 December 2005</b>		2.637	(8)	12.671	225	25.507	41.032
Cash flow/net investment hedges:							
– net fair value gain/(loss), net of tax .....	26				(265)		(265)
Currency translation differences .....	26				(871)		(871)
Net income/(expenses) recognised directly in equity .....		0	0	0	(1.136)	0	(1.136)
Sale (purchases) of treasury shares, net .....			(4)	(393)			(397)
Employee share option scheme:							
- value of services provided .....	32			132			132
Dividend .....						(601)	(601)
Net profit .....						1.348	1.348
		0	(4)	(261)	(1.136)	747	(654)
<b>Balance at 30 June 2006</b>		2.637	(12)	12.410	(911)	26.254	40.378

The notes on pages 9-30 are an integral part of the consolidated financial statements.

## Consolidated interim cash flow statement

		2006 YTD	2005 YTD
	<b>Notes</b>		
<b>Cash flows from operating activities</b>			
Cash generated from (contribution to) operations .....	27	(2.584)	3.996
Interest paid .....		(3.466)	(1.035)
Tax paid .....		(604)	(249)
Net cash from operating activities		<u>(6.654)</u>	<u>2.712</u>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary, net of cash acquired .....	30	(20.853)	0
Purchase of property, plant and equipment .....	12	(4.675)	(1.684)
Purchase of intangibles .....	13	(3.701)	(2.107)
Purchase of associate investments .....	28	(1)	0
Loans made .....		(5.281)	0
Proceeds from sale of PPE .....		988	157
Net cash used in investing activities		<u>(33.523)</u>	<u>(3.634)</u>
<b>Cash flows from financing activities</b>			
Proceeds from (purchase of) treasury shares, net .....		(264)	(81)
Proceeds from borrowings .....		81.606	4.183
Repayments of borrowings .....		(8.186)	(2.521)
Finance lease principal payments .....		(301)	(194)
Dividends paid to group shareholders .....		(601)	(590)
Net cash used in financing activities		<u>72.254</u>	<u>797</u>
<b>Net increase in cash and cash equivalents</b>		32.077	(125)
Exchange gains/(losses) on cash and bank overdrafts .....		(276)	(251)
Cash and cash equivalents at beginning of year .....		3.880	4.366
<b>Cash and cash equivalents at end of period</b>	17	<u><u>35.681</u></u>	<u><u>3.990</u></u>
<b>Cash generated from (generated to) operations</b>			
Net profit .....	27	1.348	3.905
Adjustments for items not affecting cash .....		1.823	4.967
Changes in working capital .....		(5.755)	(4.876)
		<u>(2.584)</u>	<u>3.996</u>
Working capital from (to) operation .....		<u>(2.800)</u>	<u>7.659</u>

The notes on pages 9-30 are an integral part of the consolidated 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 6 August 2006.

### 2. Summary of significant accounting policies

#### 2.1 Basis of preparation

These June 2006 interim consolidated financial statements of Marel Group are for the six months ended 30 June 2006. They have been prepared in accordance with IAS 34, Interim Financial Reporting.

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.

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.

##### Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

## Notes to the consolidated interim financial statements

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 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. Geographical segments are not reported 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.

### 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:

## Notes to the consolidated interim financial statements

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

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

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

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

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

### 2.6 Intangible assets

#### Goodwill

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

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

#### Research and development

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

#### Computer software

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

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

#### Other intangible assets

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

## Notes to the consolidated interim financial statements

### 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

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

#### Receivables

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

#### Available-for-sale financial assets

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

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

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

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

## Notes to the consolidated interim financial statements

### 2.9 Inventories

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

### 2.10 Production (construction) contracts

Production costs are recognised when incurred.

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

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

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

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

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

### 2.11 Receivables and prepayments

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

### 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.

## Notes to the consolidated interim financial statements

### 2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

#### 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.

## 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.

## Notes to the consolidated interim financial statements

### (a) Market risk

#### (i) Foreign exchange risk

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

#### (ii) Price risk

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

### (b) Credit risk

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

### (c) Liquidity risk

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

### (d) Cash flow and fair value interest rate risk

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

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

### 3.2 Accounting for derivative financial instruments and hedging activities

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 18. Movements on the hedging reserve in shareholders' equity are shown in note 26.

## Notes to the consolidated interim financial statements

### 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.

### Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

### 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.

### Comparatives:

Where applicable comparative amounts in the income statement have been transferred between items to reflect changes in the presentation for this period. It doesn't affect the net operating income for these periods.

## Notes to the consolidated financial statements

### 5. Segment information

#### Business segments

At 30 June 2006, 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 June 2006 are as follows:

	Fish	Poultry	Meat	Unallocated	Group
Total gross segment sales .....	36.844	26.095	24.297	20.488	107.724
Inter-segment sales .....	(8.464)	(9.826)	(5.978)	(4.350)	(28.618)
<b>Sales</b>	<u>28.380</u>	<u>16.269</u>	<u>18.319</u>	<u>16.138</u>	<u>79.106</u>
Operating profit .....					4.778
Finance costs - net .....					(1.872)
Share of results of associates .....					(715)
<b>Profit before tax</b>					<u>2.191</u>
Income tax expense .....					(843)
<b>Profit for the period</b>					<u>1.348</u>

The segment results for the six months ended 30 June 2005 are as follows:

	Fish	Poultry	Meat	Unallocated	Group
Total gross segment sales .....	26.728	14.609	23.836	18.699	83.872
Inter-segment sales .....	(643)	(2.792)	(3.255)	(13.344)	(20.034)
<b>Sales</b>	<u>26.085</u>	<u>11.817</u>	<u>20.581</u>	<u>5.355</u>	<u>63.838</u>
Operating profit .....					6.310
Finance costs - net .....					(1.285)
<b>Profit before tax</b>					<u>5.025</u>
Tax expense .....					(1.120)
<b>Profit for the period</b>					<u>3.905</u>

### 6. Quarterly results

	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005
Sales .....	46.639	32.467	34.785	30.416	33.910
Cost of sales .....	(30.788)	(22.084)	(23.518)	(20.494)	(22.193)
<b>Gross profit</b> .....	<u>15.851</u>	<u>10.383</u>	<u>11.267</u>	<u>9.922</u>	<u>11.717</u>
Other operating income .....	290	274	349	246	327
Selling and marketing expenses .....	(5.852)	(4.856)	(4.425)	(3.818)	(4.076)
Research and development expenses .....	(2.501)	(1.667)	(3.024)	(1.588)	(1.602)
Administrative expenses .....	(3.464)	(3.680)	(2.892)	(2.626)	(3.112)
<b>Profit from operations (EBIT)</b> .....	<u>4.324</u>	<u>454</u>	<u>1.275</u>	<u>2.136</u>	<u>3.254</u>
Finance costs - net .....	(2.013)	141	(576)	(778)	(413)
Share of results of associates .....	(715)				
<b>Profit before tax</b> .....	<u>1.596</u>	<u>595</u>	<u>699</u>	<u>1.358</u>	<u>2.841</u>
Income tax expense .....	(799)	(44)	(120)	(127)	(737)
<b>Net profit</b> .....	<u>797</u>	<u>551</u>	<u>579</u>	<u>1.231</u>	<u>2.104</u>
Profit before depreciation (EBITDA) .....	5.979	1.876	2.764	3.399	4.469

## Notes to the consolidated financial statements

### 7. Finance costs – net

	YTD 2006	YTD 2005
Interest expense:		
- bank borrowings .....	(4.661)	(923)
- finance leases .....	(28)	(28)
- other interest expenses .....	(110)	(16)
	<u>(4.799)</u>	<u>(967)</u>
Interest income .....	1.275	71
Net foreign exchange transaction gains/(losses) .....	1.652	(389)
	<u>(1.872)</u>	<u>(1.285)</u>

### 8. Staff costs

Wages .....	31.519	23.617
Related expenses .....	3.447	2.409
	<u>34.966</u>	<u>26.026</u>

Staff costs analyses as follows in the income statement:

Cost of sales .....	20.667	16.109
Selling and marketing expenses .....	6.001	4.529
Research and development expenses .....	3.883	2.823
Administrative expenses .....	4.415	2.565
	<u>34.966</u>	<u>26.026</u>

### 9. Income tax expense

Current tax .....	1.053	321
Deferred tax (Note 21) .....	(210)	799
	<u>843</u>	<u>1.120</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>2.191</u>	<u>5.025</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries .....	948	1.287
Permanent differences for tax purposes .....	133	97
Impacts from previously unrecogn. tax losses/ -asset not recognized and other items .....	(238)	(264)
Tax charge .....	<u>843</u>	<u>1.120</u>

The weighted average applicable tax rate was 38,5% (2005: 22,3%).

### 10. 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 2006	YTD 2005
Net profit attributable to shareholders (EUR 000) .....	1.348	3.905
Weighted average number of outstanding shares in issue (thousands) .....	238.134	233.256
Basic earnings per share (EUR cent) .....	<u>0,57</u>	<u>1,67</u>

## Notes to the consolidated 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 2006	YTD 2005
Net profit used to determine diluted earnings per share (EUR 000) .....	1.348	3.905
Weighted average number of outstanding shares in issue (thousands) .....	238.134	233.507
Adjustments for share options (thousands) .....	4.208	5.976
Weighted average number of outstanding shares for diluted earnings per share (thousands) .....	<u>242.342</u>	<u>239.483</u>
Diluted earnings per share (EUR cent) .....	<u>0,56</u>	<u>1,63</u>

### 11. Dividend per share

The dividends paid in March 2006 and March 2005 were EUR 601 (EUR 0.25 cents per share) and EUR 590 (EUR 0.25 cents per share) respectively.

### 12. Property, plant and equipment

	Land & buildings	Plant & machinery	Vehicles & equipment	Total
<b>At 1 January 2005</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>Six months ended 30 June 2005</b>				
Opening net book amount at 1 January 2005 .....	25.110	4.204	2.533	31.847
Exchange differences .....	(11)	17	88	94
Additions .....	434	351	907	1.692
Disposals .....	0	0	(133)	(133)
Depreciation charge .....	(211)	(484)	(471)	(1.166)
Closing net book amount .....	<u>25.322</u>	<u>4.088</u>	<u>2.924</u>	<u>32.334</u>
<b>Six months ended 31 December 2005</b>				
Opening net book amount .....	25.322	4.088	2.924	32.334
Exchange differences .....	(10)	139	163	292
Additions .....	309	786	965	2.060
Disposals .....	0	(65)	(101)	(166)
Depreciation charge .....	(212)	(539)	(527)	(1.278)
Closing net book amount .....	<u>25.409</u>	<u>4.409</u>	<u>3.424</u>	<u>33.242</u>

## Notes to the consolidated financial statements

	Land & buildings	Plant & machinery	Vehicles & equipment	Total
<b>At 31 December 2005</b>				
Cost .....	27.872	12.002	7.100	46.974
Accumulated depreciation .....	(2.463)	(7.593)	(3.676)	(13.732)
Net book amount .....	<u>25.409</u>	<u>4.409</u>	<u>3.424</u>	<u>33.242</u>
<b>Six months ended 30 June 2006</b>				
Opening net book amount .....	25.409	4.409	3.424	33.242
Exchange differences .....	39	10	(55)	(6)
Business combinations .....	2.498	2.001	267	4.766
Additions .....	2.091	1.520	1.154	4.765
Disposals .....	(571)	(84)	(44)	(699)
Depreciation charge .....	(194)	(675)	(636)	(1.505)
Closing net book amount .....	<u>29.272</u>	<u>7.181</u>	<u>4.110</u>	<u>40.563</u>
<b>At 30 June 2006</b>				
Cost .....	31.481	14.970	8.077	54.528
Accumulated depreciation .....	(2.209)	(7.789)	(3.967)	(13.965)
Net book amount .....	<u>29.272</u>	<u>7.181</u>	<u>4.110</u>	<u>40.563</u>

	YTD 2006	YTD 2005
Depreciation of property, plant and equipment analyses as follows in the income statement:		
Cost of sales .....	1.055	849
Selling and marketing expenses .....	210	158
Development expenses .....	102	69
Administrative expenses .....	138	90
	<u>1.505</u>	<u>1.166</u>

### 13. Intangible assets

	Goodwill	Development costs	Patents	Software	Total
<b>Six months ended 30 June 2005</b>					
Opening net book amount .....	7.861	5.959	354	47	14.221
Exchange differences .....	(10)	(1)	0	0	(11)
Additions .....	0	2.029	78	0	2.107
Amortisation charge .....		(1.059)	(102)	(12)	(1.173)
Closing net book amount .....	<u>7.851</u>	<u>6.928</u>	<u>330</u>	<u>35</u>	<u>15.144</u>
<b>Six months ended 31 December 2005</b>					
Opening net book amount .....	7.851	6.928	330	35	15.144
Business combination .....	1.740			0	1.740
Exchange differences .....	(11)	(3)	0	0	(14)
Additions .....	0	2.509	121	74	2.704
Amortisation charge .....	0	(1.342)	(122)	(12)	(1.476)
Closing net book amount .....	<u>9.580</u>	<u>8.092</u>	<u>329</u>	<u>97</u>	<u>18.098</u>
<b>Six months ended 30 June 2006</b>					
Opening net book amount .....	9.580	8.092	329	97	18.098
Exchange differences .....	87	1	(1)	2	89
Business combination .....	8.942			24	8.966
Additions .....	0	2.895	605	201	3.701
Amortisation charge .....	0	(1.397)	(143)	(32)	(1.572)
Closing net book amount .....	<u>18.609</u>	<u>9.591</u>	<u>790</u>	<u>292</u>	<u>29.282</u>

## Notes to the consolidated financial statements

	YTD 2006	YTD 2005
Amortisation of intangible assets analyses as follows in the income statement:		
Cost of sales .....	9	3
Selling and marketing expenses .....	8	3
Development expenses .....	1.549	1.165
Administrative expenses .....	6	2
	<u>1.572</u>	<u>1.173</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 estimated growth rates (3-5%), gross margin (33-44%) and discount rate (5-10%).

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

Calculations of recoverable amounts did not result to impairment of goodwill in the year 2005 and for the six months ended 30 June 2006.

### 14. Inventories

	30/6 2006	31/12 2005
Raw materials .....	18.138	12.712
Work in progress .....	5.001	4.239
Finished goods .....	12.301	8.323
	<u>35.440</u>	<u>25.274</u>

Inventories of EUR 6.196 (2005 : EUR 6.461) have been pledged as security for borrowings.

### 15. Production contracts

Ordered work in process .....	21.795	14.879
Advances received on ordered work in process .....	(11.776)	(5.958)
	<u>10.019</u>	<u>8.921</u>

### 16. Receivables and prepayments

Current receivables and prepayments:

Trade receivables .....	29.040	21.233
Less: Provision for impairment of receivables .....	(963)	(748)
Trade receivables – net .....	28.077	20.485
Other receivables and prepayments .....	6.896	3.032
	<u>34.973</u>	<u>23.517</u>

### 17. Cash and cash equivalents

Cash at bank and in hand .....	35.681	3.880
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For the purposes of the cash flow statement, the cash and cash equivalents comprise the following:

Cash and bank balances .....	<u>35.681</u>	<u>3.880</u>
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Bank overdrafts are considered to be financing activities in the cash flow statement.

## Notes to the consolidated financial statements

### 18. Derivative financial instruments

	30 June 2006		31 December 2005	
	Assets	Liabilities	Assets	Liabilities
Interest-rate swaps – cash flow hedges .....	111	0	0	404
Forward foreign exchange contracts – cash flow hedges .....	0	759	18	
Total .....	<u>111</u>	<u>759</u>	<u>18</u>	<u>404</u>
Less non-current portion: .....				
Interest-rate swaps – cash flow hedges .....	111	0	0	404
Forward foreign exchange contracts – cash flow hedges .....	0	0	0	0
	<u>111</u>	<u>0</u>	<u>0</u>	<u>404</u>
Current portion .....	<u>0</u>	<u>759</u>	<u>18</u>	<u>0</u>

Loss in equity on forward foreign exchange contracts as of 30 June 2006 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 June 2006 were EUR 5.751.

### 19. Trade and other payables

	30/6 2006	31/12 2005
Trade payables .....	14.713	10.916
Accruals .....	3.727	2.583
Deferred income .....	7.488	2.059
Other payables .....	9.873	9.161
	<u>35.801</u>	<u>24.719</u>

### 20. Borrowings

#### Non-current:

Bank borrowings .....	18.813	19.871
Debentures .....	70.823	4.284
Finance lease liabilities .....	630	726
	<u>90.266</u>	<u>24.881</u>

#### Current:

Bank overdrafts .....	13.079	8.739
Bank borrowings .....	5.719	4.890
Debentures .....	712	5.174
Finance lease liabilities .....	431	459
	<u>19.941</u>	<u>19.262</u>

Total borrowings .....	<u>110.207</u>	<u>44.143</u>
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The borrowings include secured liabilities (leases and bank borrowings) in a total amount of EUR 42.923 (2005: EUR 39.105). 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 to the consolidated financial statements

Liabilities in currency:	Finance lease liabilities	Other borrowings	Total 30/6 2006	Total 31/12 2005
Liabilities in CAD .....	0	565	565	608
Liabilities in CHF .....	0	1.452	1.452	0
Liabilities in DKK .....	58	17.121	17.179	12.205
Liabilities in EUR .....	704	37.764	38.468	22.680
Liabilities in GBP .....	183	21.397	21.580	0
Liabilities in ISK, index linked .....	0	27.420	27.420	4.854
Liabilities in JPY .....	0	97	97	109
Liabilities in NOK .....	0	637	637	693
Liabilities in USD .....	0	2.341	2.341	2.582
Liabilities in other currency .....	116	352	468	412
	<u>1.061</u>	<u>109.146</u>	<u>110.207</u>	<u>44.143</u>
Current maturates .....	(431)	(19.510)	(19.941)	(19.262)
	<u>630</u>	<u>89.636</u>	<u>90.266</u>	<u>24.881</u>
Annual maturates of non-current liabilities:				
Period from 1 July 2007 to 30 June 2008 / Year 2007 .....	497	2.088	2.585	2.689
Period from 1 July 2008 to 30 June 2009 / Year 2008 .....	127	1.967	2.094	2.501
Period from 1 July 2009 to 30 June 2010 / Year 2009 .....	6	1.957	1.963	2.165
Period from 1 July 2010 to 30 June 2011 / Year 2010 .....	0	1.942	1.942	2.131
Later .....	0	81.682	81.682	15.395
	<u>630</u>	<u>89.636</u>	<u>90.266</u>	<u>24.881</u>

### 21. 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 2005 .....	2.015
Exchange differences and changes within the group .....	(48)
Income statement charge (Note 9) .....	1.120
Less current tax .....	(341)
Tax charged to equity .....	(65)
End of June 2005 .....	<u>2.681</u>
1 July 2005 .....	2.681
Exchange differences and changes within the group .....	(203)
Income statement charge .....	247
Less current tax .....	(432)
Tax charged to equity .....	(4)
End of the six months period 31 December 2005 .....	<u>2.289</u>
1 January 2006 .....	2.289
Exchange differences and changes within the group .....	103
Income statement charge (Note 9) .....	843
Less current tax .....	(1.051)
Tax charged to equity .....	4
End of the six months period 30 June 2006 .....	<u>2.188</u>

	YTD 2006	YTD 2005
The deferred tax charged/(credited) to equity during the year is as follows:		
Fair value reserves in shareholders' equity		
– hedging reserve .....	<u>4</u>	<u>(65)</u>

## Notes to the consolidated financial statements

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:

	<b>30/6 2006</b>	<b>31/12 2005</b>
Deferred tax assets .....	(1.692)	(1.231)
Deferred tax liabilities .....	3.880	3.520
	<u>2.188</u>	<u>2.289</u>
Deferred income tax liability (assets) analyses on the following items:		
Non-current assets .....	3.665	3.235
Hedge reserve .....	(106)	(110)
Taxable loss carried forward .....	(2.115)	(1.419)
Other items .....	744	583
	<u>2.188</u>	<u>2.289</u>

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. Taxable effects of losses amounting to EUR 2.115 expire in the years 2009-2015.

### 22. Provisions

Warranty:

At 1 January 2005 .....	626
Changes entered into income statement .....	29
At 30 June 2005 .....	<u>655</u>
At 1 July 2005 .....	655
Changes entered into income statement .....	139
At 31 December 2005 .....	<u>794</u>
At 1 January 2006 .....	794
Business combination .....	232
Changes entered into income statement .....	21
At 30 June 2006 .....	<u>1.047</u>
	<b>30/6 2006</b>
	<b>31/12 2005</b>
Analysis of total provisions:	
Current .....	<u>1.047</u>
	<u>794</u>

### 23. Contingencies

Contingent liabilities:

At 30 June 2006 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 745 (2005 : EUR 277) to third parties.

## Notes to the consolidated financial statements

### 24. 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 3.330. The amount will be charged at the relevant rental time of each agreement. The rental agreements will materialise in the years 2006 - 2012.

#### Insurance

The Group has bought a loss of profit insurance which will cover work stoppage for up to 12 months, based on terms of operation insurance agreement. The insurance benefits amounts up to EUR 100,1 million. The Group insurance value of buildings amounts to EUR 30 million, production machinery and equipment including software and office equipment amounts to EUR 26,9 million and inventories to EUR 37,2 million.

### 25. Share capital

	Number of shares (thousands)	Ordinary shares	Treasury shares	Total
At 1 January 2005 .....	233.431	240.064	(6.633)	233.431
Treasury shares purchased .....	(2.383)		(2.383)	(2.383)
Treasury shares sold .....	2.534		2.534	2.534
At 30 June 2005 .....	233.582	240.064	(6.482)	233.582
Treasury shares purchased .....	(3.744)		(3.744)	(3.744)
Treasury shares sold .....	8.433		8.433	8.433
At 31 December 2005 .....	238.271	240.064	(1.793)	238.271
Treasury shares purchased .....	(1.951)		(1.951)	(1.951)
Treasury shares sold .....	1.676		1.676	1.676
At 30 June 2006 .....	237.996	240.064	(2.068)	237.996

The total authorised number of ordinary shares is 240 million shares (2005 : 240 million shares) with a par value of ISK 1 per share (2005 : ISK 1 per share). All issued shares are fully paid.

### 26. Fair value reserves and other reserves

	Hedging reserve	Cumulative translation adjustment	Total
Balance at 1 January 2005 .....	(20)	(388)	(408)
Cash flow hedges:			
– Fair value gain/(loss) in period .....	(267)		(267)
– Tax on fair value .....	65		65
Currency translation differences .....		753	753
Balance at 30 June 2005 .....	(222)	365	143
Cash flow hedges:			
– Fair value gain/(loss) in period .....	(100)		(100)
– Tax on fair value .....	45		45
Currency translation differences .....		137	137
Balance at 31 December 2005 .....	(277)	502	225
Cash flow/net investment hedges:			
– Fair value gain/(loss) in period .....	(269)		(269)
– Tax on fair value .....	4		4
Currency translation differences .....		(871)	(871)
Balance at 30 June 2006 .....	(542)	(369)	(911)

## Notes to the consolidated financial statements

<b>27. Cash generated from operations</b>	<b>YTD 2006</b>	<b>YTD 2005</b>
Net profit .....	1.348	3.905
Adjustments for:		
Tax .....	843	1.120
Depreciation .....	1.505	1.166
Amortisation .....	1.572	1.173
Share of results of associates .....	716	0
Loss/(gain) on sale of property, plant and equipment .....	(289)	(9)
Interest expense and foreign exchange rate differences .....	(2.524)	1.517
 Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
Inventories and production contracts .....	(4.330)	(3.643)
Trade and other receivables .....	(6.548)	(3.709)
Payables .....	5.132	2.456
Provisions .....	(9)	20
Cash generated from (to) operations .....	<u>(2.584)</u>	<u>3.996</u>
 In the cash flow statement, proceeds from sale of property, plant and equipment comprise:		
Net book amount .....	699	148
Profit / (loss) on sale of property, plant and equipment .....	289	9
	<u>988</u>	<u>157</u>

## 28. Investments in associates

At 1 January 2006 .....	0
Additions .....	1
Share of results .....	(715)
	<u>(714)</u>
Negative balance presented among non-current receivables .....	714
At 30 June 2006 .....	<u>0</u>

## 29. Available-for-sale investments

At 1 January 2005 .....	753
Impairment .....	(73)
At 31 December 2005 .....	<u>680</u>
Additions .....	0
At 30 June 2006 .....	<u>680</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 financial statements

### 30. Business combination

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

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
– Cash paid.....	1.931
– Direct cost relating to the acquisition.....	54
	<u>1.985</u>
Fair value of net assets acquired.....	<u>(401)</u>
Goodwill (Note 13).....	<u>1.584</u>

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

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

Cash and cash equivalents .....	205
Property, plant and equipment (Note 12).....	319
Deferred tax asset.....	167
Inventories.....	283
Ordered project in process.....	1.272
Receivables and prepayments.....	393
Trade and other payables.....	(1.785)
Borrowings.....	(453)
Fair value of net assets acquired....	<u>401</u>
Goodwill (Note 13).....	<u>1.584</u>
	1.985
Less:	
Cash and cash equivalents in subsidiary acquired.....	(205)
Proceeds from borrowings.....	<u>(1.780)</u>
Cash outflow on acquisition .....	<u>0</u>

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

On 7 April 2006 the Group acquired the operation of AEW Delford and subsequently established a company. The acquired business contributed revenues of EUR 10.812 and net profit of EUR 624 to the Group for the period from 7 April 2006 to 30 June 2006.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
– Cash paid.....	19.783
– Direct cost relating to the acquisition.....	1.447
	<u>21.230</u>
Fair value of net assets acquired.....	<u>(12.352)</u>
Goodwill .....	<u>8.878</u>

## Notes to the consolidated financial statements

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

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

Cash and cash equivalents .....	377
Intangibles.....	24
Property, plant and equipment .....	4.766
Deferred taxes.....	(16)
Inventories.....	4.984
Production contracts.....	2.283
Receivables and prepayments.....	5.437
Provisions.....	(232)
Trade and other payables.....	(5.271)
Fair value of net assets acquired.....	<u>12.352</u>
Goodwill .....	8.878
	<u>21.230</u>
Less:	
Cash and cash equivalents in subsidiary acquired.....	<u>(377)</u>
Cash outflow on acquisition .....	<u>20.853</u>

### 31. Related party transactions

At the end of June 2006, there are no loans to directors (31 December 2005: EUR nil). In addition there were no transactions carried out (purchases of goods and services) between the group and the directors in the years 2005 and for the period ended 30 June 2006.

During the period January to June 2006, a loan amounting to EUR 5,3 million was granted to LME Eignarhaldsfélag ehf. Marel is owner of 20% of the shares in the company and the loan is convertible into shares under certain circumstances.

### 32. Share options

Share options are granted to directors and to employees. The exercise price of the granted options is equal to the market price of the shares on date of the grant (1 January 2001). The exercise price of the granted options in 2006 is higher than market price of the shares on the date of grant (16 February 2006). Options are conditional on the employee completing particular period's service (the vesting period). The group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	Average exercise price in ISK per share	Options (thousands)
At 1 January 2005 .....	42	7.096
Forfeited .....	42	(53)
Exercised .....	42	<u>(2.482)</u>
At 31 December 2005 .....		4.561
Forfeited .....	42	20
Exercised .....	42	<u>(374)</u>
Total outstanding from 2001 at 30 June 2006 .....	42	4.207
Granted .....	70	<u>12.125</u>
At 30 June 2006 .....	63	<u>16.332</u>

## Notes to the consolidated financial statements

Outstanding options of 4.207 thousand were all exercisable at 30 June 2006. Share options outstanding can be transferred between years but have expiry date at year-end 2007.

### 33. Principal subsidiaries

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

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