

Marell hf

**Consolidated interim financial
statements 30 September 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 September 30, 2006 with their signatures.

Garðabæ, 7 November 2006

Árni Oddur Þórðarson

Arnar Þór Másson

Helgi Magnússon

Margrét Jónsdóttir

Managing Director

Hörður Arnarson

Financial ratios

	2006 1.1-30.9	2005 1.1-30.9	2005 1.1-31.12	2004 1.1-31.12	2003* 1.1-31.12	2002* 1.1-31.12
Operating results						
Sales	136.754	94.254	129.039	112.301	106.104	100.654
Gross profit	45.153	32.358	43.162	41.016	34.617	-
Profit before depreciation (EBITDA)	11.949	12.050	14.814	16.527	10.129	5.712
Profit from operations (EBIT)	6.449	8.446	9.721	12.066	6.568	2.278
Profit for the period	674	5.136	5.715	7.984	3.749	50
Cash flow statement						
Net cash from operating activities	(6.385)	5.850	2.987	13.207	4.724	1.004
Investing activities	(65.757)	(5.100)	(10.180)	(6.389)	(1.955)	(17.959)
Financing activities	132.314	699	7.210	(7.263)	(1.153)	16.906
Financial position						
Total assets	366.070	107.028	114.890	95.482	81.334	82.602
Working capital	95.874	16.972	16.557	19.807	17.700	12.740
Equity	144.198	37.231	41.032	31.595	25.167	22.724
Various figures in proportion to sales						
Gross profit	33,0%	34,3%	33,4%	36,5%	32,6%	-
Selling and marketing expenses	13,2%	12,2%	12,5%	12,4%	12,8%	-
Research and development expenses	5,4%	5,1%	6,2%	5,8%	6,8%	-
Administrative expenses	10,4%	8,8%	8,1%	8,1%	8,1%	-
Wages and benefits	42,8%	40,6%	42,5%	41,9%	41,0%	43,5%
Profit before depreciation (EBITDA)	8,7%	12,8%	11,5%	14,7%	9,5%	5,7%
Profit from operations (EBIT)	4,7%	9,0%	7,5%	10,7%	6,2%	2,3%
Depreciation/amortization	4,0%	3,8%	3,9%	4,0%	3,4%	3,4%
Profit for the period	0,5%	5,4%	4,4%	7,1%	3,5%	0,0%
Other key ratios						
Current ratio	2,0	1,4	1,4	1,6	1,7	1,4
Quick ratio	1,3	0,7	0,6	0,7	0,8	0,7
Equity ratio	39,4%	34,8%	35,7%	33,1%	30,9%	27,5%
Return on owners' equity	2,2%	20,6%	18,1%	30,5%	16,5%	0,2%
Return on total assets	0,4%	6,8%	5,4%	9,0%	4,6%	0,1%
Earnings to price last 12 months	0,00	0,03	0,03	0,06	0,05	0,00
Price to earnings (P/E) last 12 months	252,7	30,1	36,7	17,7	19,7	990,0

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

Consolidated interim income statement

	Notes	2006 Q3	2005 Q3	2006 YTD	2005 YTD
Sales	5	57.648	30.416	136.754	94.254
Cost of sales		(38.729)	(20.494)	(91.601)	(61.896)
Gross profit		<u>18.919</u>	<u>9.922</u>	<u>45.153</u>	<u>32.358</u>
Other operating income		516	246	1.080	703
Selling and marketing expenses		(7.387)	(3.818)	(18.095)	(11.512)
Research and development expenses		(3.285)	(1.588)	(7.453)	(4.804)
Administrative expenses		(7.092)	(2.626)	(14.236)	(8.299)
Profit from operations		<u>1.671</u>	<u>2.136</u>	<u>6.449</u>	<u>8.446</u>
Finance costs - net	7	(1.890)	(778)	(3.762)	(2.063)
Share of results of associates	28	(498)	0	(1.213)	0
Profit before income tax		<u>(717)</u>	<u>1.358</u>	<u>1.474</u>	<u>6.383</u>
Income tax expense	9	43	(127)	(800)	(1.247)
Profit for the period		<u>(674)</u>	<u>1.231</u>	<u>674</u>	<u>5.136</u>
Attributable to:					
Equity holders of the Group		(682)	1.231	666	5.136
Minority interest		8	0	8	
		<u>(674)</u>	<u>1.231</u>	<u>674</u>	<u>5.136</u>
Earnings per share (expressed in EUR cent per share)					
Basic earnings per share	10	-0,24	0,53	0,26	2,21
Diluted earnings per share	10	-0,24	0,52	0,26	2,15

The notes on pages 8-29 are an integral part of the consolidated financial statements.

Consolidated interim balance sheet

Assets	Notes	30/9 2006	31/12 2005
Non-current assets			
Property, plant and equipment	12	55.008	33.242
Goodwill	13	97.021	9.580
Other intangible assets	13	15.768	8.518
Investments in associates	28	924	0
Available-for-sale investments	29	680	680
Receivables		7.297	29
Deferred income tax assets	21	1.777	1.231
		<u>178.475</u>	<u>53.280</u>
Current assets			
Inventories	14	53.873	25.274
Production contracts	15	13.733	8.921
Receivables and prepayments	16	54.945	23.517
Derivative financial instruments	18	1.137	18
Cash and cash equivalents	17	63.907	3.880
		<u>187.595</u>	<u>61.610</u>
Total assets		<u><u>366.070</u></u>	<u><u>114.890</u></u>
Shareholders' equity			
Ordinary shares	25	4.048	2.637
Treasury shares	25	(12)	(8)
Share premium		114.524	12.671
Fair value and other reserves	26	26	225
Retained earnings		<u>25.572</u>	<u>25.507</u>
		144.158	41.032
Minority interest		40	0
Total equity		<u><u>144.198</u></u>	<u><u>41.032</u></u>
Liabilities			
Non-current liabilities			
Borrowings	20	125.517	24.881
Deferred income tax liabilities	21	4.539	3.520
Derivative financial instruments	18	95	404
		<u>130.151</u>	<u>28.805</u>
Current liabilities			
Trade and other payables	19	54.686	24.719
Derivative financial instruments	18	565	0
Current income tax liabilities		1.293	278
Borrowings	20	33.599	19.262
Provisions	22	1.578	794
		<u>91.721</u>	<u>45.053</u>
Total liabilities		221.872	73.858
Total equity and liabilities		<u><u>366.070</u></u>	<u><u>114.890</u></u>

The notes on pages 8-29 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
Balance at 1 January 2005		2.637	(75)	9.059	(408)	20.382	31.595
Cash flow hedges:							
– net fair value gain/(loss), net of tax	26				(302)		(302)
Currency translation differences	26				799		799
Net income/(expenses) recognised directly in equity		0	0	0	497	0	497
Sale (purchases) of treasury shares, net			(14)	(1.061)			(1.075)
Dividend related to 2004						(590)	(590)
Profit for the period						5.136	5.136
		0	(14)	(1.061)	497	4.546	3.968
Balance at 30 September 2005/ 1 October 2005		2.637	(89)	7.998	89	24.928	35.563
Cash flow hedges:							
– net fair value gain/(loss), net of tax	26				45		45
Currency translation differences	26				91		91
Net income/(expenses) recognised directly in equity		0	0	0	136	0	136
Purchases of treasury shares, net			81	4.673			4.754
Profit for the period						579	579
		0	81	4.673	136	579	5.469
Balance at 31 December 2005		2.637	(8)	12.671	225	25.507	41.032
Cash flow/net investment hedges:							
– net fair value gain/(loss), net of tax	26				734		734
Currency translation differences	26				(933)		(933)
Net income/(expenses) recognised directly in equity		0	0	0	(199)	0	(199)
Sale (purchases) of treasury shares, net			(4)	(418)			(422)
Employee share option scheme: – value of services provided	32			226			226
Dividend related to 2005						(601)	(601)
Profit for the period						666	666
Issue of share capital - acquisition		1.411		102.045			103.456
		1.411	(4)	101.853	(199)	65	103.126
Balance at 30 September 2006		4.048	(12)	114.524	26	25.572	144.158

The notes on pages 8-29 are an integral part of the consolidated financial statements.

Consolidated interim cash flow statement

		2006 YTD	2005 YTD
	Notes		
Cash flows from operating activities			
Cash generated from operations	27	1.385	7.892
Interest paid		(6.522)	(1.472)
Income tax paid		(1.248)	(570)
Net cash from operating activities		<u>(6.385)</u>	<u>5.850</u>
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	30	(45.639)	0
Purchase of property, plant and equipment	12	(7.664)	(2.259)
Purchase of intangibles	13	(5.570)	(3.018)
Purchase of associate investments	28	(1)	0
Loans made		(8.223)	0
Proceeds from sale of PPE		1.340	177
Net cash used in investing activities		<u>(65.757)</u>	<u>(5.100)</u>
Cash flows from financing activities			
Proceeds from issue of ordinary shares		59.026	0
Proceeds from (purchase of) treasury shares, net		(196)	(1.074)
Proceeds from borrowings		83.657	5.983
Repayments of borrowings		(9.147)	(3.285)
Finance lease principal payments		(425)	(335)
Dividends paid to group shareholders		(601)	(590)
Net cash used in financing activities		<u>132.314</u>	<u>699</u>
Net increase in cash and cash equivalents		60.172	1.449
Exchange gains/(losses) on cash and bank overdrafts		(145)	(408)
Cash and cash equivalents at beginning of year		3.880	4.366
Cash and cash equivalents at end of period	17	<u><u>63.907</u></u>	<u><u>5.407</u></u>
Cash generated from operations			
Net profit	27	674	5.136
Adjustments for items not affecting cash		8.994	7.127
Changes in working capital		(8.283)	(4.371)
		<u>1.385</u>	<u>7.892</u>
Working capital from operation		<u>690</u>	<u>9.090</u>

The notes on pages 8-29 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 7 November 2006.

2. Summary of significant accounting policies

2.1 Basis of preparation

These September 2006 interim consolidated financial statements of Marel Group are for the nine months ended 30 September 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 change 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 September 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 nine months ended 30 September 2006 are as follows:

	Fish	Poultry	Meat	Unallocated	Group
Total gross segment sales	62.744	43.276	39.639	22.516	168.175
Inter-segment sales	(2.628)	(12.156)	(2.449)	(14.188)	(31.421)
Sales	60.116	31.120	37.190	8.328	136.754
Operating profit					6.449
Finance costs - net					(3.762)
Share of results of associates					(1.213)
Profit before tax					1.474
Income tax expense					(800)
Profit for the period					674

The segment results for the nine 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)
Sales	40.416	17.295	34.996	1.547	94.254
Operating profit					8.446
Finance costs - net					(2.063)
Profit before tax					6.383
Tax expense					(1.247)
Profit for the period					5.136

6. Quarterly results

	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005
Sales	57.648	46.639	32.467	34.785	30.416
Cost of sales	(38.729)	(30.788)	(22.084)	(23.518)	(20.494)
Gross profit	18.919	15.851	10.383	11.267	9.922
Other operating income	516	290	274	349	246
Selling and marketing expenses	(7.387)	(5.852)	(4.856)	(4.425)	(3.818)
Research and development expenses	(3.285)	(2.501)	(1.667)	(3.024)	(1.588)
Administrative expenses	(7.092)	(3.464)	(3.680)	(2.892)	(2.626)
Profit from operations (EBIT)	1.671	4.324	454	1.275	2.136
Finance costs - net	(1.890)	(2.013)	141	(576)	(778)
Share of results of associates	(498)	(715)			
Profit (loss) before tax	(717)	1.596	595	699	1.358
Income tax expense	43	(799)	(44)	(120)	(127)
Profit for the period	(674)	797	551	579	1.231
Profit before depreciation (EBITDA)	4.094	5.979	1.876	2.764	3.399

Notes to the consolidated financial statements

7. Finance costs – net

	YTD 2006	YTD 2005
Interest expense:		
- bank borrowings	(6.199)	(989)
- finance leases	(34)	(27)
- other interest expenses	(694)	(487)
	<u>(6.927)</u>	<u>(1.503)</u>
Interest income	1.660	69
Net foreign exchange transaction gains/(losses)	1.505	(629)
	<u>(3.762)</u>	<u>(2.063)</u>

8. Staff costs

Wages	52.515	34.459
Related expenses	6.020	3.835
	<u>58.535</u>	<u>38.294</u>

Staff costs analyses as follows in the income statement:

Cost of sales	32.330	23.473
Selling and marketing expenses	10.916	6.985
Research and development expenses	6.466	4.082
Administrative expenses	8.823	3.754
	<u>58.535</u>	<u>38.294</u>

9. Income tax expense

Current tax	1.440	815
Deferred tax (Note 21)	(640)	432
	<u>800</u>	<u>1.247</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	1.474	6.383
Tax calculated at domestic tax rates applicable to profits in the respective countries	871	1.419
Permanent differences for tax purposes	308	111
Impacts from previously unrecogn. tax losses/ -asset not recognized and other items	(379)	(283)
Tax charge	<u>800</u>	<u>1.247</u>

The weighted average applicable tax rate was 54,3% (2005: 19,5%).

10. Earnings per share

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

	YTD 2006	YTD 2005
Net profit attributable to equity holders (EUR 000)	674	5.136
Weighted average number of outstanding shares in issue (thousands)	256.533	232.908
Basic earnings per share (EUR cent per share)	<u>0,26</u>	<u>2,21</u>

Notes to the consolidated financial statements

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: 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)	674	5.136
Weighted average number of outstanding shares in issue (thousands)	256.533	232.908
Adjustments for share options (thousands)	4.208	5.976
Weighted average number of outstanding shares for diluted earnings per share (thousands)	260.741	238.884
Diluted earnings per share (EUR cent)	0,26	2,15

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
At 1 January 2005				
Cost	27.153	10.963	5.518	43.634
Accumulated depreciation	(2.043)	(6.759)	(2.985)	(11.787)
Net book amount	25.110	4.204	2.533	31.847
Nine months ended 30 September 2005				
Opening net book amount at 1 January 2005	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	25.418	3.887	2.979	32.284
Three months ended 31 December 2005				
Opening net book amount	25.418	3.887	2.979	32.284
Exchange differences	(1)	139	159	297
Additions	98	723	664	1.485
Disposals	0	(65)	(87)	(152)
Depreciation charge	(106)	(275)	(291)	(672)
Closing net book amount	25.409	4.409	3.424	33.242

Notes to the consolidated financial statements

	Land & buildings	Plant & machinery	Vehicles & equipment	Total
At 31 December 2005				
Cost	27.872	12.002	7.100	46.974
Accumulated depreciation	(2.463)	(7.593)	(3.676)	(13.732)
Net book amount	<u>25.409</u>	<u>4.409</u>	<u>3.424</u>	<u>33.242</u>
Nine months ended 30 September 2006				
Opening net book amount	25.409	4.409	3.424	33.242
Exchange differences	128	(30)	(23)	75
Business combinations	11.894	2.190	3.639	17.723
Additions	3.138	2.634	1.892	7.664
Disposals	(572)	(84)	(347)	(1.003)
Depreciation charge	(328)	(1.137)	(1.228)	(2.693)
Closing net book amount	<u>39.669</u>	<u>7.982</u>	<u>7.357</u>	<u>55.008</u>
At 30 September 2006				
Cost	44.164	17.903	16.117	78.184
Accumulated depreciation	(4.495)	(9.921)	(8.760)	(23.176)
Net book amount	<u>39.669</u>	<u>7.982</u>	<u>7.357</u>	<u>55.008</u>

	YTD 2006	YTD 2005
Depreciation of property, plant and equipment analyses as follows in the income statement:		
Cost of sales	1.840	1.292
Selling and marketing expenses	380	239
Development expenses	158	107
Administrative expenses	315	134
	<u>2.693</u>	<u>1.772</u>

13. Intangible assets

	Goodwill	Development costs	Patents	Software	Total
Nine months ended 30 September 2005					
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		(1.652)	(162)	(18)	(1.832)
Closing net book amount	<u>7.841</u>	<u>7.175</u>	<u>340</u>	<u>30</u>	<u>15.386</u>
Three months ended 31 December 2005					
Opening net book amount	7.841	7.175	340	30	15.386
Business combination	1.740			0	1.740
Exchange differences	(1)	(2)	0	(1)	(4)
Additions	0	1.668	51	74	1.793
Amortisation charge	0	(749)	(62)	(6)	(817)
Closing net book amount	<u>9.580</u>	<u>8.092</u>	<u>329</u>	<u>97</u>	<u>18.098</u>
Nine months ended 30 September 2006					
Opening net book amount	9.580	8.092	329	97	18.098
Exchange differences	304	5	1	2	312
Business combination	87.136	3.868	266	346	91.616
Additions	0	4.485	781	304	5.570
Amortisation charge	0	(2.451)	(269)	(87)	(2.807)
Closing net book amount	<u>97.020</u>	<u>13.999</u>	<u>1.108</u>	<u>662</u>	<u>112.789</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	16	5
Selling and marketing expenses	21	4
Development expenses	2.743	1.819
Administrative expenses	27	4
	<u>2.807</u>	<u>1.832</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 nine months ended 30 September 2006.

14. Inventories

	30/9 2006	31/12 2005
Raw materials	27.183	12.712
Work in progress	9.602	4.239
Finished goods	17.088	8.323
	<u>53.873</u>	<u>25.274</u>

Inventories of EUR 6.426 (2005 : EUR 6.461) have been pledged as security for borrowings.

15. Production contracts

Ordered work in process	26.307	14.879
Advances received on ordered work in process	(12.574)	(5.958)
	<u>13.733</u>	<u>8.921</u>

16. Receivables and prepayments

Current receivables and prepayments:

Trade receivables	49.085	21.233
Less: Provision for impairment of receivables	(2.331)	(748)
Trade receivables – net	46.754	20.485
Other receivables and prepayments	8.191	3.032
	<u>54.945</u>	<u>23.517</u>

17. Cash and cash equivalents

Cash at bank and in hand	63.907	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	63.907	3.880
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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 September 2006		31 December 2005	
	Assets	Liabilities	Assets	Liabilities
Interest-rate swaps – cash flow hedges	0	660	0	404
Forward foreign exchange contracts – cash flow hedges	1.137	0	18	
Total	<u>1.137</u>	<u>660</u>	<u>18</u>	<u>404</u>
Less non-current portion:				
Interest-rate swaps – cash flow hedges	0	95	0	404
Forward foreign exchange contracts – cash flow hedges	0	0	0	0
	<u>0</u>	<u>95</u>	<u>0</u>	<u>404</u>
Current portion	<u>1.137</u>	<u>565</u>	<u>18</u>	<u>0</u>

Loss in equity on forward foreign exchange contracts as of 30 September 2006 will be released to the income statement at various dates.

Interest-rate swaps

The notional principal amounts of the outstanding interest-rate swap contracts at 30 September 2006 were EUR 5.651.

19. Trade and other payables

	30/9 2006	31/12 2005
Trade payables	20.844	10.916
Accruals	16.851	2.583
Deferred income	8.199	2.059
Other payables	8.792	9.161
	<u>54.686</u>	<u>24.719</u>

20. Borrowings

Non-current:		
Bank borrowings	24.667	19.871
Debentures	99.863	4.284
Finance lease liabilities	987	726
	<u>125.517</u>	<u>24.881</u>
Current:		
Bank overdrafts	24.917	8.739
Bank borrowings	7.724	4.890
Debentures	223	5.174
Finance lease liabilities	735	459
	<u>33.599</u>	<u>19.262</u>
Total borrowings	<u>159.116</u>	<u>44.143</u>

The borrowings include secured liabilities (leases and bank borrowings) in a total amount of EUR 70.145 (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 30/9 2006	Total 31/12 2005
Liabilities in CAD	0	557	557	608
Liabilities in CHF	0	1.428	1.428	0
Liabilities in DKK	541	32.989	33.530	12.205
Liabilities in EUR	679	68.642	69.321	22.680
Liabilities in GBP	143	41.163	41.306	0
Liabilities in ISK, index linked	0	5.768	5.768	4.854
Liabilities in JPY	0	92	92	109
Liabilities in NOK	0	1.076	1.076	693
Liabilities in USD	46	2.787	2.833	2.582
Liabilities in other currency	313	2.892	3.205	412
	<u>1.722</u>	<u>157.394</u>	<u>159.116</u>	<u>44.143</u>
Current maturates	(735)	(32.864)	(33.599)	(19.262)
	<u>987</u>	<u>124.530</u>	<u>125.517</u>	<u>24.881</u>
Annual maturates of non-current liabilities:				
Period from 1 Oct. 2007 to 30 Sept. 2008 / Year 2007	559	23.524	24.083	2.689
Period from 1 Oct. 2008 to 30 Sept. 2009 / Year 2008	335	3.363	3.698	2.501
Period from 1 Oct. 2009 to 30 Sept. 2010 / Year 2009	93	2.481	2.574	2.165
Period from 1 Oct. 2010 to 30 Sept. 2011 / Year 2010	0	2.395	2.395	2.131
Later	0	92.767	92.767	15.395
	<u>987</u>	<u>124.530</u>	<u>125.517</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	(98)
Income statement charge (Note 9)	1.247
Less current tax	(618)
Tax charged to equity	(303)
End of September 2005	<u>2.243</u>
1 October 2005	2.243
Exchange differences and changes within the group	(153)
Income statement charge	120
Less current tax	(155)
Tax charged to equity	234
End of the three months period 31 December 2005	<u>2.289</u>
1 January 2006	2.289
Business combination	786
Exchange differences and changes within the group	51
Income statement charge (Note 9)	800
Less current tax	(1.440)
Tax charged to equity	276
End of the nine months period 30 September 2006	<u>2.762</u>

Notes to the consolidated financial statements

	YTD 2006	YTD 2005
The deferred tax charged/(credited) to equity during the period is as follows:		
Fair value reserves in shareholders' equity		
– hedging reserve	276	(303)

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 2006	31/12 2005
Deferred tax assets	(1.777)	(1.231)
Deferred tax liabilities	4.539	3.520
	<u>2.762</u>	<u>2.289</u>
Deferred income tax liability (assets) analyses on the following items:		
Non-current assets	5.701	3.235
Hedge reserve	20	(110)
Taxable loss carried forward	(3.584)	(1.419)
Other items	625	583
	<u>2.762</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 1.658 expire in the years 2009-2016.

22. Provisions

Warranty:

At 1 January 2005	626
Changes entered into income statement	47
At 30 September 2005	<u>673</u>
At 1 October 2005	673
Changes entered into income statement	121
At 31 December 2005	<u>794</u>
At 1 January 2006	794
Business combination	737
Changes entered into income statement	47
At 30 September 2006	<u>1.578</u>
	30/9 2006
Analysis of total provisions:	31/12 2005
Current	<u>1.578</u>
	<u>794</u>

23. Contingencies

Contingent liabilities:

At 30 September 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 4.191 (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 3.725. 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 161,4 million. The Group insurance value of buildings amounts to EUR 46 million, production machinery and equipment including software and office equipment amounts to EUR 42,0 million and inventories to EUR 59,5 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	(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
Treasury shares purchased	(1.072)		(1.072)	(1.072)
Treasury shares sold	6.957		6.957	6.957
At 31 December 2005	238.271	240.064	(1.793)	238.271
Issue of shares	127.017	127.017		127.017
Treasury shares purchased	(1.951)		(1.951)	(1.951)
Treasury shares sold	1.676		1.676	1.676
At 30 September 2006	365.013	367.081	(2.068)	365.013

The total authorised number of ordinary shares is 367 million shares (2005 : 240 million shares) with a par value of ISK 1 per share (2005 : ISK 1 per share).

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	(388)		(388)
– Tax on fair value	86		86
Currency translation differences		799	799
Balance at 30 September 2005	(322)	411	89
Cash flow hedges:			
– Fair value gain/(loss) in period	21		21
– Tax on fair value	24		24
Currency translation differences		91	91
Balance at 31 December 2005	(277)	502	225
Cash flow/net investment hedges:			
– Fair value gain/(loss) in period	1.010		1.010
– Tax on fair value	(276)		(276)
Currency translation differences		(933)	(933)
Balance at 30 September 2006	457	(431)	26

Notes to the consolidated financial statements

27. Cash generated from operations	YTD 2006	YTD 2005
Profit for the period	674	5.136
Adjustments for:		
Tax	800	1.247
Depreciation	2.693	1.772
Amortisation	2.807	1.832
Share of results of associates	1.213	0
Gain on sale of property, plant and equipment	(337)	(30)
Interest expense and foreign exchange rate differences	1.818	2.307
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
Inventories and production contracts	(9.345)	(2.215)
Trade and other receivables	(3.259)	(5.117)
Payables	4.524	2.927
Provisions	(203)	33
Cash generated from operations	<u>1.385</u>	<u>7.892</u>

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

Net book amount	1.003	147
Profit on sale of property, plant and equipment	337	30
	<u>1.340</u>	<u>177</u>

28. Investments in associates

At 1 January 2006	0
Business combination	876
Additions	1
Translation difference	29
Share of results	(1.213)
	<u>(307)</u>
Negative balance presented among non-current receivables	1.231
At 30 September 2006	<u>924</u>

29. Available-for-sale investments

At 1 January 2005	753
Impairment	(73)
At 31 December 2005	<u>680</u>
Additions	0
At 30 September 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 7 April 2006 the Group acquired the operation of AEW Delford and subsequently established a company and on 4 August 2006 the Group acquired 100% of the share capital of Scanvaegt International A/S, manufacturer of equipment for the food processing industry.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:

- Cash paid	43.233
- Borrowings from seller	1.943
- New shares issued	44.429
- Direct cost relating to the acquisition	3.564
	<u>93.169</u>
Fair value of net assets acquired	<u>(23.585)</u>
Goodwill	<u>0</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.

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

Cash and cash equivalents	1.158
Intangibles	4.158
Property, plant and equipment	18.045
Investments in associates	876
Receivables, non-current	116
Inventories	20.428
Production contracts	3.839
Receivables and prepayments	28.849
Borrowings, non-current	(14.199)
Borrowings, current	(12.006)
Trade and other payables	(25.854)
Provisions	(737)
Deferred taxes	(786)
Current tax liabilities	(302)
Fair value of net assets acquired	<u>23.585</u>
Goodwill	<u>87.071</u>
	<u>110.656</u>
Less:	
- New shares issued	(44.429)
- Borrowings from seller	(19.430)
Cash and cash equivalents in subsidiary acquired	<u>(1.158)</u>
Cash outflow on acquisition	<u>45.639</u>

Notes to the consolidated financial statements

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	<u>(453)</u>
Fair value of net assets acquired	401
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 its book value in accordance with IFRS. Additional payment EUR 156 was granted in the year 2005 due to acquisition of Geba in year 2004.

31. Related party transactions

At the end of September 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 September 2006.

During the period January to September 2006, a loan amounting to EUR 8,2 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.

Notes to the consolidated financial statements

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 September 2006	42	4.207
Granted 2006	71	<u>14.235</u>
At 30 September 2006	64	<u>18.442</u>

Outstanding options of 4.207 thousand shares were all exercisable at 30 September 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 Group	UK
Carnitech Group	Denmark
Scanvaegt International Group	Denmark

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