



## **PRESS RELEASE**

10 February 2009

### **Marel Food Systems 2008 results**

#### **4.4% sales growth and 8.5% profit from operations (EBIT excluding one-time costs)**

- Proforma sales of Marel Food System and Stork Food Systems core business for 2008 totalled EUR 613.3 million, which is an increase of 4.4% compared with 2007.
- Proforma profit from operations (EBIT) for the year excluding one-time costs was EUR 51.9 million, which is 8.5% of sales, compared with 41.5 million (7.1% of sales) the year before, representing an increase of 25%.
  - IFRS standards require that the company's inventory be revalued at the time of the acquisition of Stork Food Systems, from the purchase price to the expected sales price. This results in a one-time debit entry of EUR 9.8 million in the fourth quarter, which has no effect on the company's cash flow.
  - One-time costs related to restructuring amounted to EUR 4 million.
- The company has in recent years entered into forward contracts to hedge the costs related to its operations in Iceland. In October 2008, the market for transactions in Icelandic kronas failed and the contracts were rendered null and void. For that reason, a precautionary debit entry of EUR 17.8 million was made under cost of capital.
- Net interest bearing debt amounts to EUR 378.2 million. The average maturity of debt is about four years.
- Equity totalled EUR 286.8 million and the equity ratio was 31.1% at the end of 2008.

#### **Extensive rationalisation measures in fourth quarter in response to demanding business environment**

- Proforma sales from core business were EUR 138 million compared with EUR 159 million the year before, representing a decrease of 13.4%.
- Loss from operations (EBIT) in the fourth quarter amounted to EUR 7.4 million compared with a profit from operations of EUR 1.6 million for the same period the year before. Profit from operations of core business, excluding one-time expenses related to the acquisition of Stork Food Systems, was EUR 8.4 million, or 6.2% of sales.
- The company initiated extensive restructuring during the quarter, including a reduction of 300 in the number of employees outside Iceland. The resulting costs are expensed in Q4. The annual reduction in cost resulting from these measures is estimated to be EUR 12-15 million.

#### **Consolidated financial statements**

- According to the consolidated financial statements, which include the operations of Stork Food Systems for the period 8 May to 31 December, as well as the operations of Food and Dairy Systems, sales for the year 2008 totalled EUR 540.1 million.
- Profit from operations (EBIT) for the year 2008 was EUR 20.4 million, which is 3.8% of sales.

## **Hordur Arnarson, CEO:**

"The proforma profit from operations (EBIT) from the company's core business for 2008 was 8.5% of sales, compared to the company's goal for the year which was 9%. The deviation can be attributed entirely to developments during the fourth quarter, and specifically to the effects of the international financial crisis on the company's sales.

In response to the changing conditions in the international markets, the company has undertaken extensive measures to reduce operational costs. Among other things, the number of employees at our companies outside Iceland was reduced by 300 at the end of the year and the associated expense was recorded in the fourth quarter.

The difficult conditions in the financial markets have affected the ability of our customers to invest, especially in new factories, and the result in many cases has been a deferment of such investments. We have, on the other hand, benefited from the increasingly large share of our turnover that is based on the sale of spare parts and service, which has not suffered. The food processing industry has always adapted quickly to changes in the environment. Our valuation of the strong underlying growth in the industry remains unchanged."

## **Prospects**

Global economic developments in the months ahead will heavily influence the company's prospects. The number of received orders shrank significantly when the international financial crisis struck in October last year. Some customers also requested deferment of contracts already signed. In December and January however, the development with regard to orders received was positive.

The company's product sales can be divided into three roughly equal categories:

- The sale of spare parts and service, which is virtually immune to the effects of the financial crisis.
- The sale of standard equipment and smaller solutions to existing factories, which has so far not felt the effects of the financial crisis to a significant degree.
- The sale of large systems, often for new factories, which has suffered a significant reduction in the fourth quarter of 2008. In most cases, however, the projects have merely been postponed. It is likely, therefore, that an accumulated need will have built up by the time that conditions in the financial markets improve.

The company has already introduced measures to reduce costs. The number of employees at Marel Food Systems' companies outside Iceland was reduced by 300 and restraint has been exercised in all areas of the company's operations. It is expected that the measures undertaken will result in reduced costs amounting to EUR 12-15 million in 2009. Efforts to increase efficiency, reduce costs and improve the allocation of financial resources will continue.

The drop in raw material prices in recent weeks will have a positive effect on the company, both directly through reduced production costs related to the decrease in the price of stainless steel, and indirectly through lower corn prices, which will improve operational results of our customers.

In general, there is a good balance in the currency composition of earnings and expenses. Nevertheless, less than 1% of the company's earnings are in Icelandic krona compared with 5% of total cost. The elevated exchange rate of the krona in recent years has had a negative effect on the company's earnings. The recent devaluation of the krona rate has been beneficial to the company.

It is likely that the lowest point with regard to orders received was reached in October and November of last year. However, the recovery is likely to be slow in the coming months and vary from one market area to another. The positive effects of the recovery on the company's operations are not likely to be felt to a noticeable degree until the latter part of the year.

Compared to most other industries, the food processing industry is well placed to weather the storm of the financial crisis. In fact, the downturn of the international economy will create opportunities for companies in the industry in the months ahead. Consumer habits have already begun to change and will continue to do so. The consumption of less expensive proteins, primarily poultry, is likely to increase substantially. Consumers will also eat out less in restaurants and shop more for "ready-made meals".

This development will benefit Marel Food Systems as it calls for the development of ever more efficient processing equipment and systems, especially for the processing of poultry and fish – two industry segments where Marel Food Systems is the global leader. Moreover, the drop in corn prices and base interest rates will make it easier for food processing companies to make the investment required to be able to respond to changing consumer demands.

The company's expectations are that sales in 2009 will decrease by 4-6%. The profit from operations (EBIT) for the year 2009 is expected to be 10-12% in the second half of the year, in keeping with the company's goals. Our valuation of the strong underlying growth in the industry remains unchanged. The long-term prospects of the company are good.

## Performance summary for Q4 2008

The Interim Financial Statement for Marel Food Systems hf for the year 2008 was presented to the company's Board of Directors at a meeting on 10 February 2008. Marel Food Systems hf hereby presents the highlights of its operational results for 2008, financial position at year end and cash flow for the period. The Financial Statement has not yet been approved by the Board of Directors or the company's auditors. The audited Financial Statement for 2008 will be presented to the Board for approval on 20 February and released on that date. This is done in accordance with the rules and regulations of NASDAQ OMX Iceland hf.

### Operations for 2008, in thous. of euros

<b>Operating results</b>	<b>2008</b>	<b>2007</b>
Sales	540,149	289,817
Cost of goods sold	(361,218)	(192,581)
Gross profit	178,931	97,236
Other operating income	716	1,203
Sales & marketing expenses	(71,838)	(44,829)
Development expenses	(27,337)	(14,631)
Administrative expenses	(60,038)	(28,950)
Profit from operations EBIT	20,434	10,029
Finance costs – net	(32,194)	(7,091)
Profit from associates	473	4,602
Profit before tax	(11,286)	7,540
Tax expense	2,882	(1,474)
Profit for period	(8,405)	6,066
EBITDA	42,107	20,980

### Percent of sales

Contribution margin	33.1%	33.6%
Sales & marketing expenses	13.3%	15.5%
Development expenses charged	5.1%	5.0%
Administrative expenses	11.1%	10.0%
EBITDA	7.8%	7.2%
EBIT	3.8%	3.5%
Profit for period	(1.6%)	2.1%

<b>Financial position at end of period</b>	<b>31.12.08</b>	<b>31.12.07</b>
Total assets	923,712	427,304

Equity	286,825	181,835
Working capital	(8,290)	109,887

<b>Cash flow January to December</b>	<b>2008</b>	<b>2007</b>
Working capital from operations	5,038	12,987
Cash generated from operations	13,663	2,778
Increase/(decrease) in net cash	(7,728)	(33,353)
Net cash at end of period	22,213	30,437

<b>Highlights at end of December</b>	<b>2008</b>	<b>2007</b>
Return on owners' equity	(3.6%)	3.7%
Current ratio	1.0	1.9
Quick ratio	0.5	1.3
Equity ratio	31.1%	42.5%
Earnings per share in euro cents for the past 12 months with Stork Food Systems	-	1.65
Market cap. in millions of euros based on exchange rate at end of period	265.8	449.5

Sales in 2008 totalled EUR 540.1 million, compared with EUR 289.8 million for the year before. Sales have therefore increased by 86.4%.

Net finance costs amounted to EUR -32.2 million, compared with EUR -7.1 million a year ago. Forward contracts related to operational costs in Icelandic kronas will be closed, and the calculated loss associated with them, EUR 17.8 million, has been entered as cost of capital for 2008.

Net loss of Marel Food Systems in 2008 totalled EUR 8.4 million, compared with a net profit of EUR 6.1 million the year before.

Net interest bearing debt, i.e. interest bearing debt less net cash, amounted to EUR 378 million at year end.

Total assets of the company at year end 2008 were entered at EUR 924 million, having increased by EUR 427 million, or 116%, from the end of 2007.

Cash generated from operations totalled EUR 13.7 million. At year end 2008, net cash was EUR 22.2 million, compared with EUR 30.4 million at the end of 2007.

#### **Operations for Q4 – main results in thous. of euros**

<b>Operating results</b>	<b>2008</b>	<b>2007</b>
Sales	150,501	78,869
Cost of goods sold	(107,617)	(53,692)
Gross profit	42,884	25,177
Other operating income	(189)	(66)
Sales & marketing expenses	(20,587)	(12,172)
Development expenses	(7,644)	(4,237)
Administrative expenses	(21,883)	(7,100)
Profit from operations EBIT	(7,419)	1,602

Finance costs – net	(22,387)	(2,277)
Profit of associates	0	5,125
Profit before tax	(29,806)	4,450
Tax expense	6,076	(1,077)
Profit for period	(23,730)	3,373
EBITDA	(90)	4,841

#### Percent of sales

Contribution margin	28.5%	31.9%
Sales & marketing expenses	13.7%	15.4%
Development expenses charged	5.1%	5.4%
Administrative expenses	14.5%	9.0%
EBITDA	-	6.1%
EBIT	(4.9%)	2.0%
Profit for period	(15.8%)	4.3%

## Proforma performance

Performance of Marel Food Systems and core business of Stork Food Systems (excluding Food and Dairy and one-time costs related to Stork).

#### Proforma operations for January to Dec. – main results in thous. euros

Operating results	2008	2007	Change %
Sales	613,301	587,668	4.4%
Cost of goods sold	(391,196)	(377,945)	3.5%
Gross profit	222,105	209,723	5.9%
Other operating income	716	1,203	
Sales & marketing expenses	(77,327)	(80,370)	
Development expenses	(31,531)	(31,379)	
Administrative expenses	(66,156)	(57,688)	
Profit from operations EBIT	47,807	41,489	
EBIT excluding cost due to restructuring	51,907	41,489	
EBITDA	71,410	61,785	

#### Percent of sales

Contribution margin	36.2%	35.7%
Sales & marketing expenses	12.6%	13.7%

Development expenses charged	5.1%	5.3%
Administrative expenses	10.8%	9.8%
EBITDA	11.6%	10.5%
EBIT	7.8%	7.1%
EBIT excluding cost due to restructuring	8.5%	7.1%

### Proforma operations for Q4 – main results in thous. of euros

Operating results	2008	2007	Change %
Sales	138,111	159,450	(13.4%)
Cost of goods sold	(88,680)	(103,627)	(14.4%)
Gross profit	49,431	55,823	(11.5%)
Other operating income	(189)	(66)	
Sales & marketing expenses	(18,845)	(21,361)	
Development expenses	(6,877)	(7,825)	
Administrative expenses	(19,099)	(15,107)	
Profit from operations EBIT	4,421	11,464	
EBIT excluding cost due to restructuring	8,521	11,464	
EBITDA	11,473	16,952	
Percent of sales			
Contribution margin	35.8%	35.0%	
Sales & marketing expenses	13.6%	13.4%	
Development expenses charged	5.0%	4.9%	
Administrative expenses	13.8%	9.5%	
EBITDA	8.3%	10.6%	
EBIT	3.2%	7.2%	
EBIT excluding cost due to restructuring	6.2%	7.2%	

## Key events during the period

### Integration activities

Following a period of rapid external growth in the preceding two to three years, the main emphasis in 2008 has been on internal growth and increase profitability. In the fourth quarter, work continued on the integration of the company's sales networks and product lines, as well as various business processes, in order to reduce fixed costs and increase economies of scale. Among other things, this enabled the company to reduce the number of employees at Marel Food System companies outside Iceland by 300 at year end.

In the first quarter of next year, Marel, AEW Delford and Carnitech will be merged under the name of Marel Food Systems. This will further increase efficiency, as well as strengthen the company's image. All the names will continue to be used as brand names in connection with the marketing of individual product categories.

The integration of Marel Food Systems and Stork Food Systems, which began in the second quarter, continues. The focus is on achieving synergies through the integration of financial procedures, information systems, procurement, production and marketing activities.

#### Private placement

In view of the turbulence in the financial markets, Marel Food Systems decided to issue new shares in the company in a private placement, which was successfully completed on 16 October 2008. The purpose of the share offering was to further strengthen the Company's finances and to increase free float of its shares. Subscriptions for shares amounted to ISK 20,074,615 nominal value at 70 ISK per share, equivalent to ISK 1,405,223,050 (approximately EUR 10 million). The Board of Directors decided to accept all subscriptions for shares, the vast majority of which were from pension funds.

## 5 year comparison

### Key figures from Marel's operations, January to December, in thous. of EUR

	2008	2007	2006	2005	2004
Sales	540,149	289,817	208,700	129,039	112,301
Profit from operations (EBIT)	20,434	10,029	7,527	9,721	12,066
EBIT as a % of sales	3.8%	3.5%	3.6%	7.5%	10.7%
Net profit	(8,405)	6,066	159	5,715	7,984
Net profit as a % of sales	(1.6%)	2.1%	0.1%	4.4%	7.1%
EBITDA	42,107	20,980	15,679	14,814	16,527
EBITDA as a % of sales	7.8%	7.2%	7.5%	11.5%	14.7%
Total assets at end of period	923,712	427,304	364,793	114,890	95,482
Equity at end of period	286,825	181,835	144,423	41,032	31,595
Working capital at end of period	(8,290)	109,887	87,989	16,557	19,807
Cash generated from operations	13,663	2,778	(2,992)	2,987	13,207
Net cash at end of period	22,213	30,437	63,079	3,880	4,366
Current ratio	1.0	1.9	1.9	1.4	1.6
Quick ratio	0.5	1.3	1.2	0.6	0.7
Equity ratio	31.1%	42.5%	39.6%	35.7%	33.1%
Market cap. in millions of EUR based on exchange rate at end of period	265.8	449.5	302.6	209.5	141.6

## Presentation of results 11 February 2009

Marel Food Systems will present performance results at a meeting on Wednesday, 11 February 2009, at 8:30 a.m., at the company's headquarters at Austurhraun 9, Gardabaer.

## **Publication days of the Consolidated Financial Statements in 2009 and the Annual General Meeting 2010**

Publication dates of the Financial Statements for 2009:

Annual General Meeting of Marel Food Systems hf	10 March 2009
1 <sup>st</sup> quarter	6 May 2009
2 <sup>nd</sup> quarter	6 August 2009
3 <sup>rd</sup> quarter	3 November 2009
4 <sup>th</sup> quarter	4 February 2010
Annual General Meeting of Marel Food Systems hf	3 March 2010

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