



ANNUAL REPORT 2007

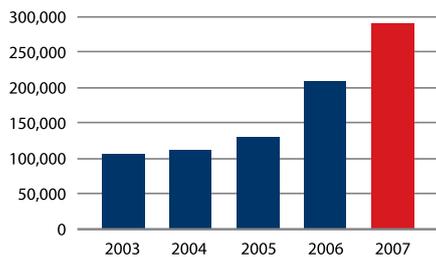


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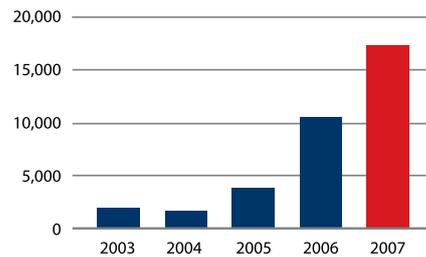
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Marel Food Systems in figures

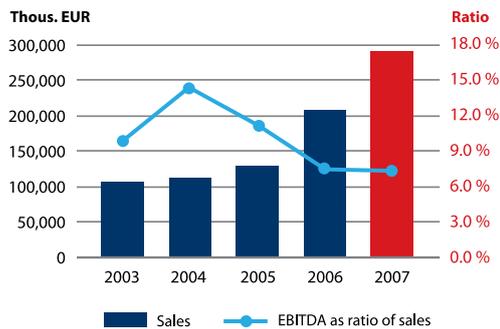
Sales in thous. EUR



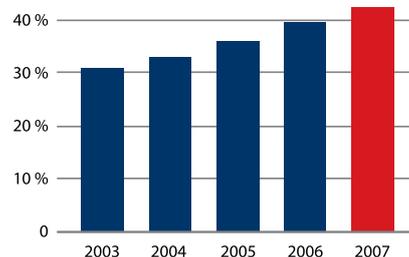
Purchase of property, plant and equipment in thous. EUR



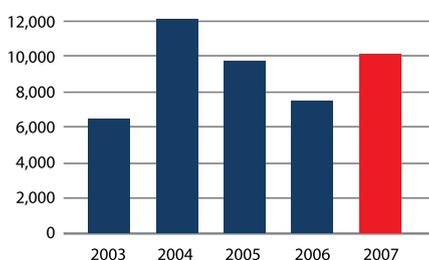
Operating profit before depreciation, EBITDA as a percentage of sales



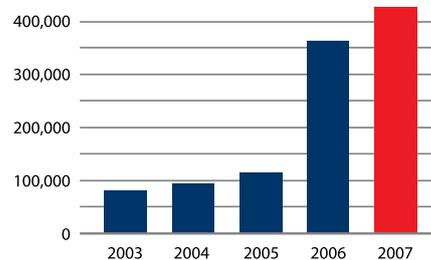
Equity ratio



Profit from operations (EBIT) in thous. EUR



Total assets in thous. EUR



We are Marel Food Systems – *Return on Innovation*

Marel Food Systems is a global leader in developing and marketing high-tech equipment and solutions for food processors that increase productivity and profitability. This is achieved by creating products that significantly rationalize operations, maximize quality and fulfill current and upcoming consumer needs.

Surpassing goals

At its Annual General Meeting in 2006, Marel Food Systems set the ambitious goal of tripling annual turnover within 3-5 years, mainly by means of strategic acquisitions to expand the company's technological base and improve access to markets. The acquisitions of AEW Delford and Scanvaegt in 2006, coupled with the agreement in November 2007 to acquire Stork Food Systems, exceeded this goal in a much shorter timeframe: pro forma revenues for 2007 project a fivefold increase from the company's 2005 turnover.

The task of integrating AEW Delford in the UK and Scanvaegt in Denmark with Carnitech and Marel concluded on schedule in 2007. The process will impact fully on the company's operational profit during 2008. When the transaction of Stork Food Systems is finalized in 2008, a new round of integration will begin.

Expanding boundaries

Marel Food Systems now comprises five product-oriented business units, a network of 24 sales and service units in 24 countries and a corporate structure. Together, the units supply a complete range of processing equipment and services to all sectors of the food processing industry, which consistently provide added value for processors, retailers and end consumers.

The fundamental reason for the company's success is a core culture of innovation and development in partnership with customers, efficiency and responsiveness to market needs. Standardized equipment, custom-designed turnkey solutions and production control software innovated, manufactured and serviced by Marel Food Systems are designed for one purpose: to effectively and significantly enhance the competitiveness of food processing operations.

We are Marel Food Systems, and our products and services have become a benchmark for expanding the boundaries of food-processing performance.

Marel Food Systems thrives on imagination and ingenuity. It uses these elements to innovate solutions for all food processors, which then directly and positively affect the quality and value of fish, meat, poultry, cheese and prepared-food products around the world.



Marel Food Systems worldwide

Marel Food Systems consists of four main brands that are complementary to each other: Marel in Iceland, Carnitech in Denmark, AEW Delford in the UK and Scanvaegt in Denmark. Together these brands supply a complete range of processing equipment to all sectors of the food processing industry.

Marel Food Systems is a leader in its field with subsidiaries in 24 countries. Most of the company's products are manufactured in Iceland, Denmark and Slovakia with smaller production facilities in the USA, UK, Singapore and Brazil. In addition, the company operates a network of over 50 agents and distributors worldwide that market, sell and service the company's products. Over three-quarters of overall sales are achieved through subsidiaries.

4 main brands

Production in **7** countries

Subsidiaries in **24** countries

Network of over **50** agents and distributors worldwide



Shares

Share performance

Marel Food Systems hf (symbol: MARL) shares are listed on the OMX NORDIC EXCHANGE, and are included in the OMX Iceland 15 and OMX Nordic Mid-Cap Indices, among others. The share price rose from ISK 77 at year's end 2006 to ISK 102.00 at year's end 2007, an increase of 32.5%. During the same period the OMXI-15 index decreased by 3.2%. The year's highest end-of-day share price was ISK 102.5, and the lowest end-of-day share price was ISK 72.5.

MAREL FOOD SYSTEMS STOCK PRICE COMPARED TO THE OMXI-15 INDEX



TOP 10 SHAREHOLDERS AS OF 31 DECEMBER 2007

Name	No. of shares	%
Eyri Invest ehf	126,170,437	31.25
Landsbanki Íslands hf, aðalstöðvar	84,845,640	21.01
Grundtvig Invest ApS	52,200,943	12.93
Atorka Group hf	24,194,067	5.99
Lífeyrissjóðir Bankastræti 7	10,884,141	2.70
Lífeyrissjóður verzlunarmanna	9,686,888	2.40
Sameinaði lífeyrissjóðurinn	5,585,750	1.38
Ingunn Sigurðardóttir	5,430,498	1.34
Helga Sigurðardóttir	5,348,749	1.32
Súsanna Sigurðardóttir	5,308,774	1.31
Total	329,655,887	81.64
Others	74,129,810	18.36
Registered share capital	403,785,697	100.00

Chairman's address



Marel Food Systems is a strongly financed and fast-growing global company serving the food processing industry. Its expansion in recent years has been based on profitable internal and external growth achieved through the acquisition of other companies operating in similar fields. The company is listed on the OMX Nordic Exchange with a broad base of investors and a market value of approximately EUR 450 million at year-end 2007.

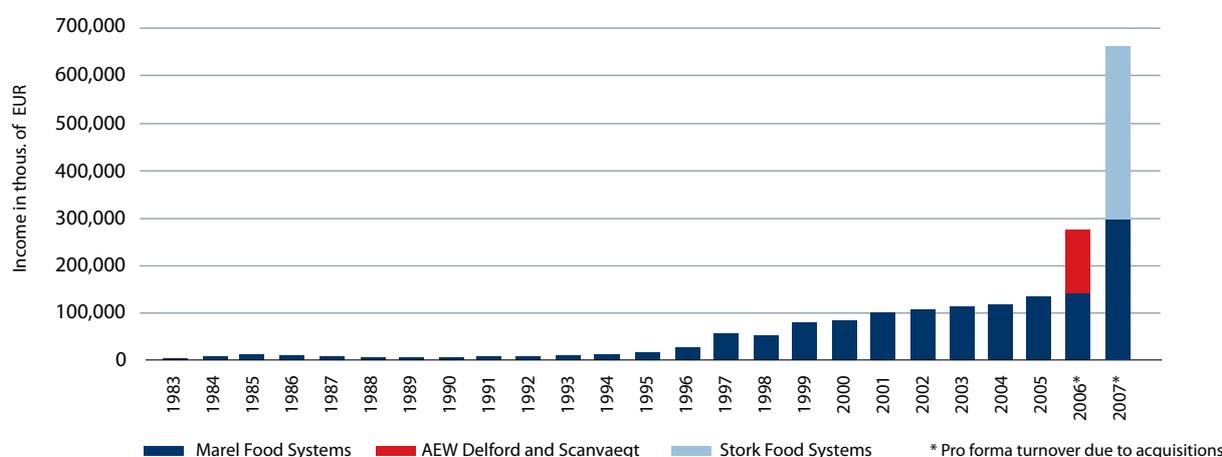
Marel Food Systems is at the forefront of developing and marketing high-tech applications for the international fish, meat and poultry industries, and has also moved into the cheese, vegetable and convenience food business in general. By using Marel Food Systems technology, customers are able to increase productivity significantly through better utilization of raw material and manpower.

Well placed in a fast-growing market

The industry in which Marel Food Systems operates is an exciting, fast-growing business driven by changes in consumer habits and geographical expansion. It has exceeded economic growth considerably in the last 10 years, and is expected to grow at the same rate of 5-6% annually over the coming years.

The market to date has been highly competitive and fragmented with no clear industry leaders. Our customers, however, have been consolidating and are consequently demanding more and better solutions and after-sales services on a global scale.

TURNOVER 1983-2007



Growth strategy and execution

At the Annual General Meeting in early 2006, Marel Food Systems announced an ambitious two-step growth strategy. In the first 3-5 years expansion would be built on 2-4 strategic acquisitions that would in the second step fuel internal growth and profitability. The company's strategy is clear and management is executing it vigorously.

During 2006, the Board and management showed their determination in reaching these goals by acquiring two of Marel Food Systems' main competitors, AEW Delford in the UK and Scanvaegt in Denmark, thereby doubling the company's revenues and market share.

In November 2007, Marel Food Systems entered into an agreement to acquire its long-term partner Stork Food Systems. The companies' businesses are complementary: Stork Food Systems' strengths are within the poultry segments, Marel Food Systems' roots are within the fish processing industry. The acquisition is subject to the approval of antitrust authorities, which is anticipated in the first half of 2008.

Strongly financed company with broad investor base

Marel Food Systems' shareholder base has been significantly broadened in the past two years with a public offering in 2006 and a private placement in 2007. The private placement was targeted toward pension funds and other long-term investors. In addition, the previous owner of Scanvaegt, the Grundtvig family, showed their strong belief in our prospects by taking Marel shares as a significant portion of the purchase price of Scanvaegt in 2006.

The financing for the planned Stork Food Systems acquisition is fully secured by equity and long-term debts (5-9 years). After clearance from antitrust authorities, Marel

Food Systems plans a pre-emptive share issue of EUR 120 million that is secured by Landsbanki with support from Eyri Invest and Grundtvig Invest. The three largest shareholders in Marel Food Systems have thus committed to support the growth strategy.

Outlook

After three substantial acquisitions in the last two years, Marel Food Systems now has the scale and scope to serve its global customers. The combined worldwide market share of Stork Food Systems and Marel Food Systems within the meat, poultry and fish processing industry will be 15-16%.

Pro forma revenues of core businesses for 2008 are estimated close to EUR 650 million in 2008 compared to EUR 130 million in 2005. Moreover, EBIT is expected to be close to EUR 60 million compared to almost 10 million in 2005.

Marel Food Systems will not enter into other large-scale acquisitions for the time being. Full focus will now be directed toward capturing synergies and increasing profits. A stronger and larger company will have greater ability to increase internal growth, especially through new markets in Eastern Europe, Asia and South America.

Finally, I want to thank all the people at Marel Food Systems for their effort and determination in fulfilling our goals. I am also grateful for the support that investors are showing toward our vision.



Árni Oddur Þórðarson
Chairman of the Board

CEO's address



The year 2007 was characterized by extensive integration activities involving Marel, AEW Delford and Scanvaegt, of which the latter two were acquired in 2006. The companies' worldwide sales networks merged under the Marel Food Systems corporate structure, and it was gratifying that despite major organizational changes, the company's turnover increased at a rate greater than the average rate of growth in its market sector, resulting in the company increasing its market share.

At the start of 2006, Marel Food Systems introduced an ambitious strategy of tripling the company's turnover in the following 3-5 years. Work on this vision continued systematically during 2007, and with the agreement last November to acquire Stork Food System, which is awaiting approval of competition authorities, Marel Food Systems has achieved its growth target in a much shorter time than projected. The company's expansion has created the necessary conditions for achieving significant synergistic benefits by improving utilization of product development investment, and by lowering costs through rationalization.

Operations

Turnover increased by about 39% in 2007. Profit from operations (EBIT) was EUR 10 million, an increase of 33% from the previous year. Net profit was EUR 6 million compared with EUR 0.2 million the year before. Performance was shaped by a wide-ranging integration process that involved direct one-time costs, but primary emphasis focused on internal restructuring tasks rather than the traditional emphasis on new products and marketing activities.

Markets

Key markets have been North America and Europe, and in 2007 the company continued to reinforce operations in these areas. Effort also focused on market expansion

by increasing activities in key growth markets in South America, Eastern Europe, Asia and Australia where excellent opportunities exist for the company's solutions.

In 2007, Marel Food Systems secured major contracts with many of the largest fish, meat and poultry processors in the world. These large contracts for processing solutions are a result of long-term sales and marketing efforts that will support future organic growth.

Customers

Marel Food Systems works hand in hand with all major food processing companies on all continents to produce the best possible solutions for varying processing needs. Cooperation with customers is an important issue when developing new solutions, as the company constantly monitors current and emerging trends and requirements within each industry sector. Our customers must respond to changes in their customer's requirements, and we diligently monitor all current and potential changes in order to give customers a competitive edge by increasing yield, throughput and efficiency, and thereby maximizing profits.

Product Development

One of the primary factors in a successful operation is progressive product development. Marel Food Systems is committed to annually investing approximately 6% of revenues in product development to strengthen its leading position on the market and fulfill customer needs. This commitment in investment is significantly higher than the industry average, and is intended to support ongoing strong organic growth of the company. Product standardization was one of the objectives for 2007, and it proved to be a successful factor in increasing efficiency, lowering production costs and strengthening the company's competitive position.

Integration activities

The acquisition of AEW Delford in April and Scanvaegt in August 2006 has doubled the company's annual turnover. The companies have a very similar product range and operate on the same markets. It was therefore necessary to integrate operations with the aim of improving and coordinating customer services and clarifying employee positions, while improving performance of the companies.

The companies' worldwide sales networks merged under the Marel Food Systems umbrella. Economies of scale improve customer services while reducing operating costs and capital commitments.

During the integration a new organizational structure was implemented for Marel Food Systems and its subsidiaries to ensure the best possible use of resources of all companies within Marel Food Systems. In 2007, the operation in Iceland was separated operationally from the corporate function by establishing the subsidiary Marel ehf on 1 July 2007, and was separated financially on 1 January 2008.

These changes to Marel Food Systems' organizational structure will generate additional value for stakeholders and improve customer services. At the same time, they will improve communication links and financial efficiency with Marel Food Systems.

The fundamental goals for the integration work are the following:

- A culture of everyone working for the same company
- To double the number of new products with unchanged investment in product development
- Improve customer services at a better profit
- Lay the foundation for strong internal growth
- Create an interesting and challenging work environment for our employees

Stock development

One of the main corporate goals is to maximize the company's stock value. A 32.5% increase in stock value occurred in 2007, on top of an 18.5% increase in 2006. The group's stock turnover rate on the OMX Nordic Exchange in 2007 was 25.34%. Market-making is provided by Landsbankinn and Saga Capital, which has led to a lower

spread and more active trading. The end-of-day spread in 2007 was 0.68%. Marel Food Systems paid a dividend of 20% of nominal value in 2007.

Prospects

Intensive product development and ongoing work over the years to bolster the company's marketing operations have placed it in a strong competitive position. Prospects on the company's primary markets are currently satisfactory.

Prospects for the company's operations are good. The consolidation of Marel, Carnitech, AEW Delford and Scanvaegt has created a company with a broad product range, strong marketing network, outstanding service network and a highly competitive position in various product categories. The economy of scale of the new company is considerable, including increased sales and cross-selling.

A large part of the integration process has returned the intended results, but it is apparent that several tasks have had a negative impact. This has involved both operational units in the sales network and product categories. Work is in progress to restructure these tasks and thereby ensure satisfactory results.

The company's objective of achieving at least a 10% operating profit (EBIT) remains unchanged, and it is now projected that this will be achieved in 2009. It is expected that operating profit for 2008 will be about 8% of turnover. During the first half of 2008, the projected operating profit will be somewhat less than for the year as a whole. These projections do not include any impact from Stork Food Systems. Continued strong internal growth is anticipated, as are good results from Stork Food Systems' core activities.

Exciting times lie ahead where primary emphasis will be on improved profitability and dynamic internal growth based on product development and marketing activities in emerging markets.



Dr. Hörður Arnarson
Chief Executive Officer

To shareholders



CEO and Board of Directors

Chief Executive Officer

Dr. Hörður Arnarson

Education: Engineering, Ph.D., 1990, Technical University of Denmark. Electronic Engineering, B.Sc., 1985, University of Iceland.
Holdings in Marel Food Systems, including those of financially related parties: 1,676,244 shares.

Hörður Arnarson joined Marel Food Systems hf in 1985, two years after the company was founded, as a project manager. In 1994, he became Director of Product Development, and Director of Production in 1998 until 1999 when he became the CEO of the company.

Chairman of the Board

Árni Oddur Þórðarson

Education: MBA from IMD in Switzerland 2004. Cand. Oecon./Business Administration from the University of Iceland 1993.
Elected: 2005
Holdings in Marel Food Systems, including those of financially related parties: 126,199,541 shares.

Árni Oddur is the CEO of Eyrir Invest ehf, and has extensive international business experience. He has served on the boards of various businesses through the years. Before co-founding Eyrir Invest he was head of Corporate Finance and Capital Markets in Búnaðarbanki Íslands, which later merged with Kaupthing Bank. Árni Oddur has been a Board member of Ölgerðin hf, Iceland's largest consumer products distributor, from 2003, and on the Advisory Board of Arctic Ventures, a high-tech fund based in Stockholm, since 1999, among others.

Board Members

Arnar Þór Másson

Education: Political Science with an M.Sc. in Comparative Politics from the London School of Economics and Political Science 1997. BA in Political Science from the University of Iceland, 1996.
Elected: 2001
Holdings in Marel Food Systems, including those of financially related parties: 0 shares.

Arnar is the Deputy Director General of the Department of Financial Management at the Ministry of Finance. He has worked at the Ministry since 2001 where he specializes in public sector reforms and management. Alongside his work at the Ministry, Arnar is an Adjunct at the Department of Political Science at the University of Iceland. Arnar does not sit on the board of any other company than Marel Food Systems hf. He was on the boards of Hjaltadalur Heating Utility sf from April 2003 until November 2005, and the Weights and Measures Office from April 2003 until July 2005.

Friðrik Jóhannsson

Education: Cand. Oecon. University of Iceland, 1983, Certified Public Accountant 1987.
Elected: Alternate 1997-2004. Board member since 2004. Chairman of the Board from the AGM 2005 until October 2005.
Holdings in Marel Food Systems, including those of financially related parties: 400,000 shares.

Friðrik joined Iceland Investment Corporation (IIC) at the end of 1986 as CFO, and became CEO in 1989. IIC was acquired by Skandia in 1993, and Friðrik became CEO of Skandia's operation in Iceland, which comprised non life insurance, life insurance, securities brokerage, asset management and mutual and private pension funds. In 1997 he became the Managing Director of Burðarás Investments. Friðrik became CEO of Burðarás, an ICEX listed investment company in 2004, and the CEO of Straumur Burðarás Investment Bank in 2006. Friðrik retired from his position at the bank in June 2007 and is currently an active investor in various financial markets. Friðrik has served as a Board member of various companies, for example he served as the Chairman of Board of the Icelandic Stock Exchange from February 2006 until it merged with OMX in November 2006. Since 2007, he has been Chairman of Board of Brú Venture Capital.

Helgi Magnússon

Education: Business Administration from the University of Iceland, 1974. CPA 1975.

Elected: 2005

Holdings in Marel Food Systems, including those of financially related parties: 4,786,426 shares.

Helgi is the largest owner, Chairman of the Board and CEO of Hofgardar Holding ehf and Harpa Holding ehf. Helgi is the Chairman of Flügger Iceland Ltd, Chairman of the Federation of Icelandic Industries, member of the Board of Directors and the Executive Board of the Confederation of Icelandic Employers. Helgi is also on the Board of the Blue Lagoon hf, Vice-chairman of the Pension Fund of Commerce and Njardvik Ship-Yard Ltd. Helgi has been a Board member of Glitnir hf, Framsyn Pension Fund and Icelandic Chamber of Commerce.

Margrét Jónsdóttir

Education: Master of Accounting and Auditing from the University of Iceland, 2006, BA in Business Administration from University of Iceland, 1983.

Elected: 2006

Holdings in Marel Food Systems, including those of financially related parties: 78,008 shares.

Margrét is the CFO of Eyrir Invest ehf. Previously, Margrét was the Director of the finance department at Edda Publishing hf from December 2001 until October 2002. She was Director of Finance at Kreditkort hf from August 2000 until December 2001, and Manager of Accounts and Planning at Fjárfestingarbanki Atvinnulífsins hf (FBA), and Director of Finance at the Industrial Loan Fund (FBA predecessor), from September 1988 until June 2000.

Lars Grundtvig

Education: Bachelor of Commerce

Elected: 2007

Holdings in Marel Food Systems, including those of financially related parties: 52,200,943

Lars joined the family business, Scanvaegt A/S, in 1959, which was founded by his grandfather in 1932. In 1969, Lars and his father transformed the company from a small business selling mechanical scales into a producer of high-tech weighing and processing equipment for the food industry. In 1974 he became the Managing Director, and in 1993 he took the office of working Chairman. In 2006, Scanvaegt International A/S was sold to Marel Food Systems hf. Lars and his sons established the investment company Grundtvig Invest A/S, and as its Managing Director, he sits on the boards of JJ Steel Holding A/S, Anker Andersen A/S, Lichtenbourg Technologies bv, Black Lily A/S and Grundtvig Invest A/S.



Board of Directors and CEO of Marel Food Systems hf, from left: Margrét Jónsdóttir, Lars Grundtvig, Árni Oddur Þórðarson, Chairman, Arnar Þór Másson, Helgi Magnússon and Hörður Arnarson, CEO. Board member Friðrik Jóhannsson was absent.

Organizational structure

Marel Food Systems consists of five product-oriented business units, an integrated sales and service network and a corporate structure. The fundamental principles in the company comprise a culture of innovation and development, efficiency and responsiveness to customer needs.

The business units are AEW Delford Ltd. in UK, Carnitech A/S in Denmark, Marel ehf in Iceland, Scanvaegt A/S in Denmark and Marel Food Systems s.r.o. in Slovakia. Together the units supply a complete range of processing equipment to all sectors of the food processing industry. Most of the products are manufactured in Iceland, Denmark, Slovakia and the UK. Smaller production facilities are operated in Singapore, Brazil and the USA.

Marel Food Systems operates a global network of sales and service units. The network consists of 24 units that are set up for handling sales and service of the company's products around the world.

Access by the company's sales network to specialized consultancy in the appropriate industry, or the appropriate product category, ensures the best possible solution for the customer. Service is provided everywhere the company sells its products. In addition, the sales and service network operates over 50 agents and distributors worldwide.

Marel Food Systems corporate has the primary roles of optimizing performance and implementing synergies across the business units and sales & service network, as well as ensuring the units operate as coordinated entities. Employees are mainly located in Denmark, Iceland and the UK.

There are three main functions in corporate:

- Core function regarding finance, taxes, investor relations, legal matters, etc.
- Policy and influencing roles regarding strategy and control processes.
- Service units: payroll, training, IT support, patents, etc.

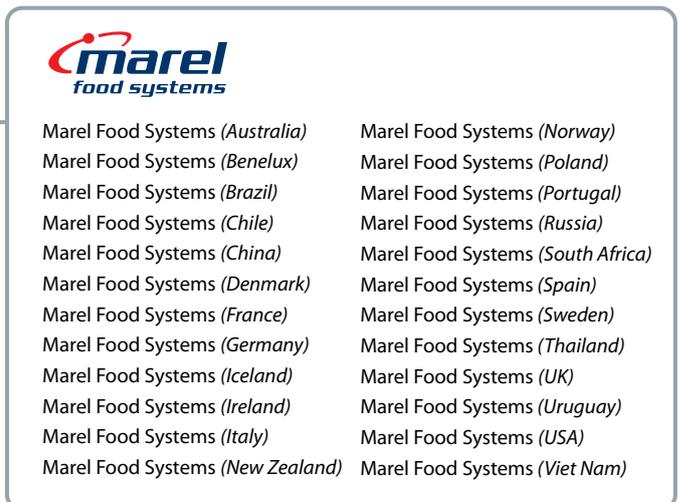
Corporate



Business units



Sales and service units





Corporate governance

Icelandic law and the company's Corporate Governance determine the duties of the various bodies within Marel Food Systems. Corporate governance defines the way in which the company is directed and controlled. Furthermore, strong emphasis on corporate governance improves the quality of all internal procedures and infrastructure in the company, which results in increased confidence from shareholders and market participants. The corporate governance policy is based upon the Guidelines concerning corporate governance issued by the OMX Nordic Exchange, Confederation of Icelandic Employers and Iceland Chamber of Commerce.

Insider Information

In accordance with statutory law, the company complies with the rules of the Financial Supervisory Authority – Iceland (FME) on the handling of inside information and insider trading. The job and functions of an appointed Compliance Officer, who monitors and supervises the handling of insider information, is a part thereof.

Moreover, the company has in place in-house rules on the handling of inside information and insider trading. Among other things it is provided for that a primary insider may not trade in the securities of the company during the period from the end of a financial period until financial reports are disclosed, regardless of whether they possess inside information or not.

Shareholders' meetings

Shareholders' meetings are the supreme authority in Marel Food Systems' affairs (within the limits established by the company's articles of association and statutory law). The Annual General Meeting (AGM) is scheduled once a year and other shareholders' meetings are convened when necessary.

All shareholders, as well as their representatives, company auditors and the Chief Executive Officer have the right to attend shareholders' meetings. At shareholders' meetings, each share carries one vote and motions are passed by majority vote unless otherwise stated in the company's Articles of Association.

The Marel Food Systems AGM is held before the end of August each year, and for 2008 is scheduled for 7 March.

The AGM is advertised publicly with at least one-week's notice, and details about the meeting are available on the company's website, www.marelfoodsystems.com, and at the OMX Nordic Exchange in Iceland's website, www.omxgroup.com/nordicexchange.

Board of Directors

The Board of Directors of the company is the supreme authority in the affairs of the company between shareholders' meetings.

The Board of Directors is elected by shareholders at the AGM for a term of one year. The Board currently comprises six members. At the company's AGM on 8 March 2007, the members of the Board of Directors were re-elected for the term of one year. An additional member to the Board was elected in accordance with changes to the Articles of Association of the company to increase board members to six. Mr. Lars Grundtvig, CEO of Grundtvig Invest A/S, was elected to the Board.

Compensation to the Board of Directors is decided at the AGM. For 2007, the agreed monthly remuneration was EUR 2000 for each Board member and EUR 6000 for the Chairman of the Board.

The Board is responsible for the organization of the company and for ensuring the proper conduct of its operation at all times. The Board of Directors shall decide on all matters regarded as extraordinary or of major consequence. The same applies to major borrowing requiring mortgaging the company's property. The Board shall establish goals for the company in accordance with the company's objectives and shall formulate the policy and strategy required to achieve these goals.

All matters brought before a Board meeting shall be decided by majority vote, provided that the Board meeting has been lawfully convened. In the event of a tie vote, the Chairman of the Board casts the deciding vote. However, important decisions may not be taken unless all members of the Board have had the opportunity to discuss the matter, if possible.

Board meetings shall normally be called on a monthly basis. Members of the Board elect a Chairman and vice-

chairman from their own ranks. The signature of the Board is required to bind the company. The company signature is written by the Board and only the Board may grant powers of procurement.

The Chairman of the Board of Directors is responsible for leading the Board, facilitating its work and ensuring that the Board is capable of operating in the interests of Marel Food Systems shareholders. The Chairman also serves as the Board's spokesperson.

No unusual business has been conducted between Marel Food Systems and the company's Board of Directors. Board members do not have any buy or put options in the company. No member of Marel Food Systems Board has been convicted of fraud, gone bankrupt, been taken into receivership or been indicted.

Comply or explain

According to the Guidelines, it is preferable that the majority of the Directors are independent. In 2007, the Board consisted of two independent members and four non-independent members. The Board of Directors complied with the Guidelines in all respects during the year.

Board meetings

The Board of Directors convened 14 times in 2007. The average attendance at the Board Meetings was 86%. The Board is provided with a report in advance of each Board meeting and, in addition, a comprehensive monthly report of Marel Food Systems' operations and market conditions. Board members are informed about all significant matters immediately.

A Board member shall only act according to his own conviction, not on the instructions of those electing him. Immediately following the Annual General Meeting, the Board shall allocate responsibilities among themselves.

Together, the Board members bring a valuable and balanced range of experience as they have all held or hold senior positions in professional and public life. Profiles of the Board members are listed on pages 12-13.

Chief Executive Officer

The Board of Directors appoints a Chief Executive Officer (CEO) and decides the terms of his employment. The CEO is responsible for daily operations in accordance with those directives that he has been given by the Board, or by

the Articles of Association. Daily operations do not include matters that are irregular or of major significance. The CEO shall ensure that the accounts and finances conform to law and accepted accounting standards, and that company assets are handled in a reliable manner. Furthermore, the CEO hires and discharges all company employees. The CEO is obligated to abide by all Board directives. He is required to provide the Board of Directors and auditors with all information requested.

Board committees

The Board's work is supported by its committees: Compensation Committee and Auditing Committee. Members of the Compensation Committee are Arnar Þór Másson, Árni Oddur Þórðarson and Friðrik Jóhannsson. Its field of work involves negotiating wages and other benefits for the CEO and senior management, and framing the company's wage policy including wage incentives and stock options rights for company shares.

Members of the Auditing Committee are Friðrik Jóhannsson, Helgi Magnússon and Margrét Jónsdóttir. Its field of work includes monitoring Marel Food Systems' financial status, evaluating the company's internal monitoring system and risk management system, evaluating management reporting on finances, evaluating whether laws and regulations are followed, and evaluating the work of the company's statutory auditors.

Auditors and accounting

An auditing firm shall be elected at the AGM for a term of one year. The auditor, however, shall not be a member of the Board of Directors, CEO or employee of the company and is not allowed to own shares in the company. The auditor shall examine the company's annual accounts in accordance with generally accepted accounting standards, and shall for this purpose inspect account records and other material relating to the operation and financial position of the company. The auditor shall at all times have access to all books of accounts and documents of the company.

PriceWaterhouseCoopers hf was elected as the company's auditor at the AGM on 8 March 2007. Auditors on its behalf are Þórir Ólafsson, State Authorized Public Accountant, and Kristinn Freyr Kristinsson, State Authorized Public Accountant. They have audited and signed without reservation Marel Food Systems' consolidated financial statements for the years 2007 and 2006.



Risk management

Marel Food Systems' 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 company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the company's financial performance. The company uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out within the company where applicable under policies approved by the Board of Directors. The company will continue to improve its risk management guidelines even further in 2008 by centralization of the company's financial risk management function.

Foreign exchange risk

The company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to euros. Financial exposure is partly hedged within the company's general policy and within set limits. Entities in the company use forward contracts to manage their foreign exchange risk arising from future commercial transactions, recognized assets and liabilities. Translation risk arising from the company's financial currency is not hedged.

Credit risk

The company minimizes credit risk by monitoring credits granted to customers, and assigns collateral to cover potential claims. The company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history, and products are not delivered until payments are secured. There are also policies in place that limit the amount of credit exposure to any one financial institution.

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 company aims to maintain flexibility in funding by keeping committed credit lines and current financial assets available.

Cash flow and fair-value interest rate risk

The company's income and operating cash flows are substantially independent of changes in market interest rates. The interest rates of finance leases to which the company is lessor or lessee are fixed at inception of the lease. These leases expose the company to fair-value interest rate risk. The company's cash-flow interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the company to cash-flow interest rate risk, while borrowings issued at fixed rates expose it to fair-value interest rate risk.

The company 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 company raises long-term borrowings at floating rates, and swaps them into fixed rates that are lower than those available if the company borrowed at fixed rates directly. The risk, measured as the potential increase in interest paid during the coming year based on a defined move in interest rates, is monitored and evaluated regularly.

Insurance policies

The company maintains global and local insurance programs. The coverage comprises property damage, business interruption, product and public liability, marine and transit, and director and officers. The company believes that its current insurance coverage is reasonable.

Corporate social responsibility

At the heart of our commitment to Marel Food Systems stakeholders is our endeavor to deliver sustainable, superior results as the product of our business practices. Marel Food Systems has defined areas to focus energy in order to maximise benefits for society, for stakeholders and for the company. Our commitments justify that we go beyond minimal, legal requirements when shaping our future business environment. The Guidelines for Multi-National Enterprises, as produced by the Organisation for Economic Co-operation and Development (OECD), is our reference document in this respect.

Supporting the future

During 2007, Marel Food Systems continued its long-term support of science education on all educational levels. With this support, the company strives to enhance and enrich innovation, science and mathematical education in the communities where it operates, as well as increase awareness of the value of a strong scientific education.

Our main projects have been the support of a children's science museum – where our employees have taken pride in designing and building numerous useful products – various youth innovation contests on elementary and university levels, design competitions and various publications that aid in teaching science and innovation. Furthermore, we have become the supporter of a full-time teaching position at the elementary level that focuses on increasing awareness of science and innovation.

By providing financial resources, as well as the knowledge and time of our employees, we are able to work closely with local municipalities to strengthen science teaching, as well as support major innovation and science events.

Many of these projects have helped future scientists along the path of science and innovation. We are proud that our efforts have played a role in nurturing upcoming generations, which inevitably leads to further excellence in science exploration and research.





Human resources

Marel Food Systems employs over 2200 people in 24 countries worldwide. The largest number of employees, over 800, is located in Denmark.

Global mission, goals and objectives

One of Human Resources' key roles is providing support to Marel Food Systems' overall business model by positioning people at the heart of corporate strategy. This involves initiating means to empower employees, thereby helping them reach their full potential.

It is important to create an environment that nurtures, supports and motivates employees, that creates an atmosphere where people are aware and supportive of the company's mission and objectives, and are given the flexibility to participate in achieving them on their own terms.

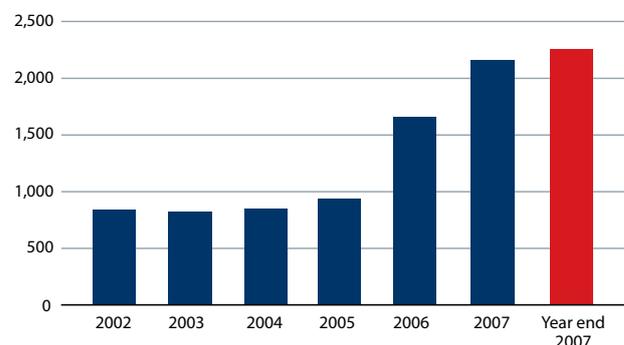
Marel Food Systems' global Business Units have diverse cultural backgrounds, yet they work as a unified whole in a great many aspects of operations. A unified Human Resources mission for the business units was created last year to underline the importance of striving to carry out the same mission.

We need to recognize the importance of thinking globally while acting locally – and respecting different cultures while strengthening shared values. This has already led to feelings of shared pride, as we all can identify with being part of a company that thrives on the pioneering spirit of innovation.

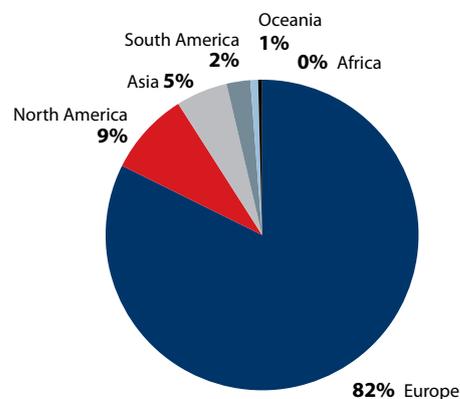
Training and development

Extensive integration and restructuring work has taken place within the field of training and development. All the business units now run an aligned strategy with focus on knowledge transfer within the global sales and service network. Our training academy has set up an ambitious training and developmental program, where all business units focus on cross-training in connection with our main product groups, as well as sales & service techniques.

Number of employees, average per year



Number of employees by continent at year-end 2007



Shares and shareholders

Share performance

Marel Food Systems hf (symbol: MARL) shares are listed on the OMX NORDIC EXCHANGE, and are included in the OMX Iceland 15 and OMX Nordic Mid-Cap Indices, among others. The share price rose from ISK 77 at year's end 2006 to ISK 102.00 at year's end 2007, an increase of 32.5%.

During the same period the OMXI-15 index decreased by 3.2%. The year's highest end-of-day share price was ISK 102.5, and the lowest end-of-day share price was ISK 72.5.

Share capital

Marel Food Systems hf issued 36.7 million new shares in 2007: 29.8 million were issued in relation to the acquisition of Stork Food Systems, 3.7 million were issued in conjunction with establishing a new market-maker and 3.2 million were issued to fulfill an employee stock-option agreement.

When introducing the acquisition of Stork Food Systems on 29 November 2007, it was announced that the company intends to raise EUR 147 million by issuing new shares to finance the acquisition. Following approval by the Board of Directors, Marel Food Systems increased its common shares by 29.8 million, or 7.97% of total share capital, with a private placement that concluded on 10 December. The company raised EUR 30 million, and at the same time strengthened its shareholder base. The private placement was managed by Landsbanki Íslands hf. Marel Food Systems hf is planning an offering of new shares to pre-emptive rights holders totaling EUR 120 million in 2008.

At year-end, Marel Food Systems hf shares totaled 403,785,697.

TOP 10 SHAREHOLDERS AS OF 31 DECEMBER 2007

Name	No. of shares	%
Eyrir Invest ehf	126,170,437	31.25
Landsbanki Íslands hf, aðalstöðvar	84,845,640	21.01
Grundtvig Invest ApS	52,200,943	12.93
Atorka Group hf	24,194,067	5.99
Lífeyrissjóðir Bankastræti 7	10,884,141	2.70
Lífeyrissjóður verzlunarmanna	9,686,888	2.40
Sameinaði lífeyrissjóðurinn	5,585,750	1.38
Ingunn Sigurðardóttir	5,430,498	1.34
Helga Sigurðardóttir	5,348,749	1.32
Súsanna Sigurðardóttir	5,308,774	1.31
Total	329,655,887	81.64
Others	74,129,810	18.36
Registered share capital	403,785,697	100.00

Shareholders

The number of shareholders in Marel Food Systems was recorded on the shareholders register to be 2,038 at year-end 2007, compared to 2,975 shareholders at year-end 2006.

As of 31 December 2007, Marel Food Systems holds 3,436,009 treasury shares, or 0.85% of total share capital.

Liquidity of shares

An agreement was concluded with Saga Capital regarding market-making for issued shares. The purpose of such agreements is to improve liquidity and enhance transparent price formation in the company's shares on the OMX Nordic Exchange. Marel Food Systems has also had a market-making agreement with Landsbanki Íslands since 2006.



Shares in Marel Food Systems hf were traded 2,038 times in 2007 for a total market value of ISK 8.2 billion (up from ISK 5.8 billion in 2006), which corresponds to a turnover rate of 25.34%. The average end-of-day spread of Marel Food Systems hf was 0.68%. The market value of the company at year-end 2007 was ISK 41.18 billion.

DISTRIBUTION OF SHARES AS OF 31 DECEMBER 2007

	Number of Shares	Shareholders	%	Shares	%	
	1	9,999	1,474	72.33	6,085,945	1.51
	10,000	99,999	461	22.62	13,218,529	3.27
	100,000	199,999	42	2.06	5,835,658	1.45
	200,000	799,999	36	1.77	13,675,796	3.39
	800,000	1,399,999	3	0.15	3,018,033	0.75
	1,400,000	2,999,999	7	0.34	13,076,740	3.24
	3,000,000	9,999,999	10	0.49	50,579,768	12.53
	10,000,000	99,999,999	4	0.20	172,124,791	42.63
	100,000,000	+	1	0.05	126,170,437	31.25
		2,038	100.00	403,785,697	100.00	

Dividend

Marel Food Systems hf paid a dividend of 20% of the nominal share value, which corresponds to ISK 0.2 per share in 2007.

Share options to key employees

Three share-option programs are currently in place for employees at Marel Food Systems.

Exercisable	Number of shares (in thous.)	Exercise price (ISK)	Exercisable in
Option 1	11,743	70	2009–2011
Option 2	2,000	74	2008–2010
Option 3	1,500	74	2009–2011
Option 4	1,315	92	2010–2012
Total	16,558		

MAREL FOOD SYSTEMS STOCK PRICE COMPARED TO THE OMXI-15 INDEX



Investor relations

Marel Food Systems hf places great emphasis on providing investors, analysts and other stakeholders with timely and accurate information about the company. This approach is fundamental to achieving a fair market price for the company's shares.

Information policy

The cornerstone of the company's information policy is to provide current and potential investors with equal access to consistent and transparent data, in as much detail as is commercially sensible. In order to ensure equal access, all information is published simultaneously in Icelandic and English.

Through efficient reporting, Marel Food Systems ensures that all necessary information concerning the progress of the company is clear, and contributes to the correct price formation of the company's shares.

All price sensitive information, regulatory announcements about Marel Food Systems and announcement regarding performance and future prospects are published in a timely manner, initially on the website of the OMX Nordic Exchange in Iceland, www.omxgroup.com/nordicexchange, and subsequently on Marel Food Systems' website, www.marelfoodsystems.com.

Financial results are issued quarterly in accordance with the requirements of the OMX Nordic Exchange in Iceland.

Investors meeting

Marel Food Systems places great importance on developing its relations with existing and potential investors. This is achieved by several means, most notably through regular investors meetings and participation by the Chairman of the Board and/or the CEO of Marel Food Systems in various functions.

Investors, potential investors and financial analysts are also invited to the headquarters of Marel Food Systems in Garðabær, Iceland where management has the opportunity to present an overview of company operations. During 2007, these meetings focused primarily on recently announced financial results, and the achievement of the long-term goal of acquiring Stork Food Systems, which was announced at a meeting in November 2007. During that meeting, Marel Food Systems introduced for the first time the results via a webcast, which was available in real-time on the company website.





www.marelfoodsystems.com

In addition to Marel Food Systems regulatory announcements, the company's website contains detailed information about the company, its history, operations and activities. Current and past press releases, presentations and annual reports are archived on the website and available for download, and the company's current and historic share prices are available for review against key indices. The company announced in 2007 a new corporate website, *www.marelfoodsystems.com*, as a part of the new corporate identity.

Annual report

The Marel Food Systems Annual Report is an important communication tool, and the company strives to provide a balanced picture of all key aspects of the business, both financial and non-financial information. A hard copy of the Annual Report is available upon request by writing to *investors@marel.com*. Downloadable versions of current and past annual reports are available on the company's website. Since 2005, an interactive version of reports are available on the website, which facilitates page by page downloads and printing.

Publication schedule for 2008-2009:

Reports

6 May 2008	1st Quarter
12 August 2008	2nd Quarter
4 November 2008	3rd Quarter
10 February 2009	4th Quarter
10 March 2009	Annual General Meeting

Investors relations contact:

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Corporate Legal Counsel
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and *investors@marel.com*



Development 2007



Acquisitions

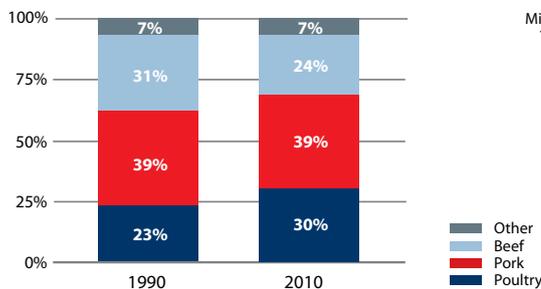
In November 2007, after approximately two years of negotiations, Marel Food Systems announced it had entered into an agreement to purchase the Stork Food Systems division of Stork NV. The acquisition price was EUR 415 million on a debt and cash-free basis.

Marel Food Systems and Stork Food Systems have enjoyed successful co-operation in the development and marketing of high-tech equipment for the food processing industry for almost a decade. This co-operation has brought customers and shareholders of both companies added value and offered employees the opportunity

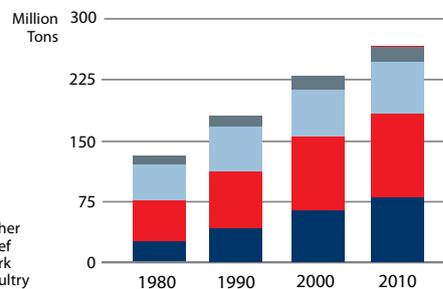
to undertake challenges within a market area that is constantly expanding.

When the transaction is finalized in 2008, subject to clearance from antitrust authorities, Marel Food Systems will approximately double its revenues. This is in addition to the company having more than doubled in size the previous year after the acquisition and integration of Scanvaegt and AEW Delford. This growth rate is considerably faster than the development strategy unveiled at the 2006 Annual General Meeting projected, which was to triple the company's turnover within 3-5 years.

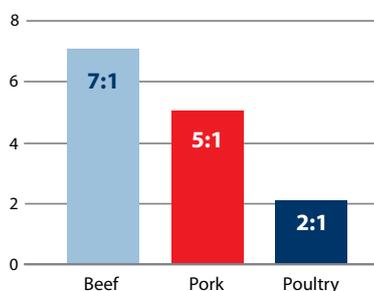
Composition of the Global Meat and Poultry Meat Market



Growth of the Global Meat Market

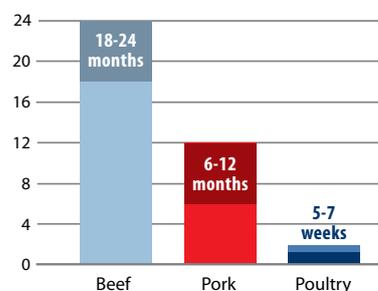


Feed-to-meat conversion rates



The amount of feed required in order to produce 1 kg of meat differs greatly between species.

Months to market



The length of time until each species is ready for processing.



Stork Food Systems

Stork Food Systems, headquartered in Boxmeer, the Netherlands, is a global provider of advanced solutions for the poultry, red meat and further processing industry. Stork Food and Dairy Systems – part of the Stork Food Systems Group – manufactures products for the fast growing dairy, juice, food processing and pharmaceutical segments, and operates companies in the Netherlands, France, USA, Spain and Brazil.

The overall turnover of Stork Food Systems in 2007 was EUR 370 million, of which EUR 310 million comes from the core activities in poultry, meat and further processing. In the last four years, annual organic growth of core activities has been 14%, driven by strong product development and expansion in emerging markets.

Post acquisition

In the next phase, Marel Food Systems' emphasis will be on internal growth and increased profitability, with an objective of operating profit EBIT reaching 10% of turnover by year-end 2008. After the acquisition, the company will be able to offer a powerful combination of equipment and systems for primary, secondary and further processing, creating more value for customers with innovative equipment and solutions. The company will continue its strategy to grow as an important innovator in the food processing industry with a strong focus on research and development.

The businesses of the two companies are complementary with no overlapping in their product portfolios, which will simplify the upcoming integration process. Co-operation between Marel Food Systems and Stork Food Systems has been in such core activities as the development and production of turnkey solutions for the poultry processing industry: Stork Food Systems' strength in mechanical design is supported by Marel Food Systems' innovative software and electronics systems. Based on this experience, the two companies have an excellent cultural fit.

Prospects

Combined, Stork Food Systems and Marel Food Systems will become firmly established as a major global innovator of food processing equipment and solutions with an estimated 15-16% market share. Changes in their respective markets will be minimal due to years of partnership, and both operations will be able to ensure stable operations in their core fields while continuing close collaboration with customers.

The biggest markets for both of the companies are at present in Northern Europe and North America, but in the near future focus will shift to new markets in Asia, Eastern Europe and South America. The annual growth rate in these regions is projected at 7% over the next five years, which will create opportunities to optimize production capacity and technological efficiency.

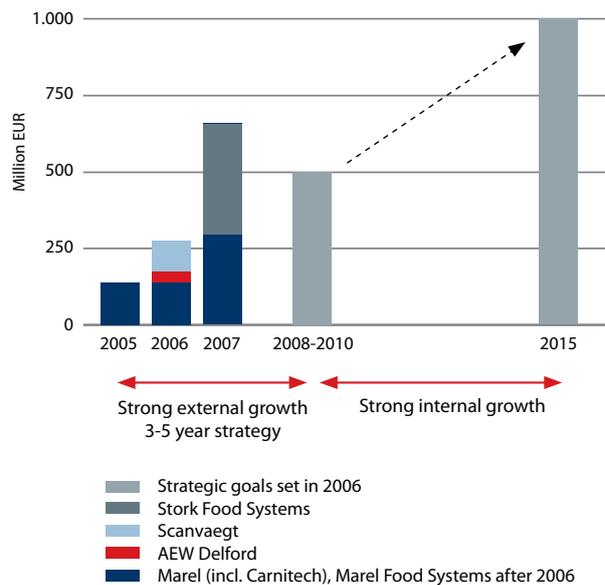


Opportunities and outlook

In February 2006, Marel Food Systems presented a clear vision of external and internal growth. The first phase focused on implementing strong external expansion through strategic acquisitions/mergers of two to four key companies that had good growth potential, and strong integration compatibilities with Marel Food Systems. The aim was to attain a 15-17% market share in 2008-2010, and a turnover of EUR 400-500 million. The second phase focused on strong internal growth by developing best products and services, with the aim of achieving an annual turnover of EUR 1000 million by 2015.

The purchase of AEW Delford and Scanvaegt in 2006 quickly brought the company close to the goal of the first phase. With the acquisition of Stork Food Systems, the goal of tripling turnover has been exceeded in a much shorter timeframe: pro forma revenues for 2007 are EUR 660 million, or a fivefold increase from Marel Food System's 2005 turnover.

Marel Food System's projected market share today, including Stork Food Systems, is approximately 15-16%. In phase two, the focus shifts to strong internal growth by developing the following key market dimensions: industries, geographical markets, products and solutions, service and spare parts. The critical mass is now in place to enter emerging markets in Eastern Europe, Asia and South America where the annual growth rate is expected to be 7% over the next five years. Through these growth



processes, Marel Food Systems has become a leader in developing equipment for the global food processing industry.

Senior management of Marel Food Systems expects that it will be able to achieve the company's goal of EUR 1000 million in turnover over the next 7 years with internal growth.



Integration

The primary goal of integration is to improve productivity, synergy and teamwork, thereby boosting the efficiency and effectiveness of the processes that run a business. This has now been achieved as the integration of AEW Delford in the UK, Scanvaegt and Carnitech in Denmark and Marel ehf in Iceland concluded in 2007. The process will fully impact Marel Food Systems' performance in 2008.

Marel Food Systems comprises five business units, a network of sales and service units and a corporate structure. The extensive task of integration concentrated on rationalizing all elements of the business units' production, product development, purchasing and service operations, as well as the sales and marketing network. For example, sales offices decreased from 45 to 24, and several new distribution and service operations joined the company's global net. This was achieved through the acquisition of companies that had been working in close association with the various business units, as well as the establishment of new entities.

Integration work also involved implementing a strategy of creating an outstanding workplace, where everyone understands and appreciates that they work for the same company, where the strengths of each company have been developed to support the vision and growth

of Marel Food Systems. In addition, work focused on encouraging creativity, leadership and teamwork, as well as independent thinking, which opens up numerous possibilities for the company and its employees to grow and prosper in harmony.

Other integration goals include doubling the number of new products with unchanged investment in product development, improving customer services while increasing profitability and expanding the value-added chain. In addition, new products and product categories will enter the mix and new market possibilities will present themselves, thereby diversifying opportunities for growth.

Further integration

In November 2007, Marel Food Systems announced it had concluded an agreement to acquire the Stork Food Systems division of Stork NV. Over the years, Marel Food Systems and Stork Food Systems have successfully cooperated in developing and producing food-processing solutions. When the transaction is finalized in early 2008, Marel Food Systems will approximately double in size. This will bring with it a new round of integration, and years of working cooperatively will help ensure that this work will be successful.



Performance 2007



Financial performance

Operating revenues and expenses

Marel Food Systems' operating revenue in 2007 amounted to EUR 289.8 million, compared to EUR 208.7 million in 2006, an increase of EUR 81.1 million or 38.9%. Proforma growth for the same period was 4.5%, or 6.1% at a fixed EUR/USD exchange rate. Other income in the period amounted to EUR 1.2 million, compared to EUR 1.7 million for the previous year.

Contribution margin of product sales was EUR 97.2 million, or 33.6% of sales compared to 68.8 million or 33.0% of sales in 2006. Operating expenses other than the cost of goods sold totaled EUR 88.4 million, which corresponds to 30.5% of revenue compared to 30.2% for the previous year.

Any assessment of the operations, and comparison with previous results, should take into account that the year's operating expenses include one-time costs of EUR 4.9 million in the first half of the year relating to the integration of AEW Delford and Scanvaegt. These costs were chiefly charged to sales and marketing expenses, and to administrative expenses.

Sales and marketing expenses increased to 15.5% of sales compared to 13.9% for the previous year, which reflects extensive restructuring of the sales and service network. Administrative expenses on the other hand, as well as

expenses related to research and development, decreased in relation to sales despite one-time charges. As a ratio of operating revenue, the expenses developed as follows:

	Year 2007	Year 2006
Selling and marketing expenses	15.5%	13.9%
Research and development expenses	5.0%	5.6%
Administrative expenses	10.0%	10.6%

Operating profit before depreciation, financial items and taxes (EBITDA), and operating profit before financial items and taxes (EBIT), were as follows:

	Year 2007	Year 2006
EBITDA in thous. of EUR	20,980	15,679
EBITDA as a % of sales	7.2%	7.5%
Excluding one-time costs	8.9%	-
EBIT in thous. of EUR	10,029	7,527
EBIT as a % of sales	3.5%	3.6%
Excluding one-time costs	5.2%	-

The year was characterized by extensive integration efforts that are expected to generate significant operational rationalization in 2008. The company's goal of at least 10% EBIT is expected to be achieved at the end of that year.

Marel Food Systems' operation in millions of EUR

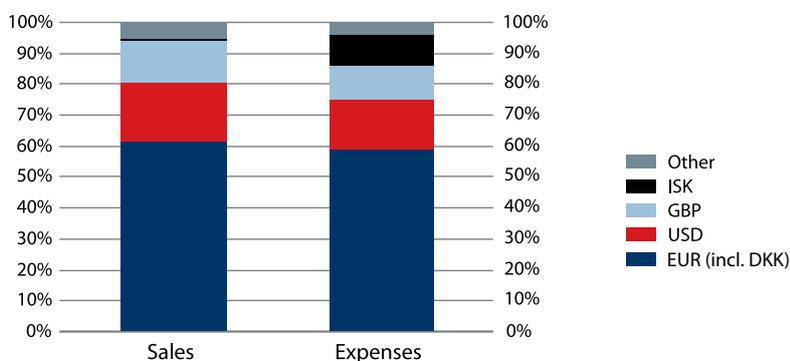
	Q4 '07	Q3 '07	Q2 '07	Q1 '07	Q4 '06
Sales	78.9	66.1	72.6	72.2	71.9
Operating profit (EBIT)	1.6	1.8	3.4	3.2	1.1
EBIT %	2.0%	2.7%	4.7%	4.5%	1.5%
Net finance expenses	(2.3)	(1.9)	(1.8)	(1.2)	(1.3)
Net profit	3.4	(5.8)	7.4	1.0	(0.5)
EBITDA	4.8	4.6	5.9	5.6	3.7



Financial items

Net finance cost totaled EUR 7.1 million compared to EUR 5.0 million in the previous year. The rise is a result of increased business and investment in new operations. Average interest of the company's long-term loans in 2007 was 6.3%.

Marel Food Systems' share in the operational profit of associated companies totaled EUR 4.6 million, which may be attributed to investment by LME ehf in the Dutch company Stork NV. The share is entered at market value. The company applies natural exchange rate hedging to the extent possible. Approximately 61% of the revenue was in euros or pegged to the euro through the Danish krone. These two currencies account as well for 58% of operating expenses. The Icelandic króna, however, plays a much larger part in expenses than revenues. To offset that, the company has entered into forward exchange rate contracts in regard to all estimated costs in Icelandic króna until April 2009. Sales and expenses, broken down by currencies, are as follows:



Assets and liabilities

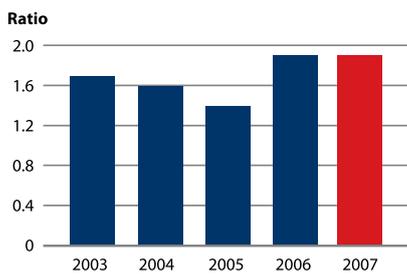
Total assets of the company at year-end 2007 were EUR 427.3 million, an increase of about 62.5 million, or 17.1% from the previous year. The assets include a loan amounting to EUR 49.6 million, granted to LME ehf of which Marel Food Systems owned 20% until November 2007 when the shares were sold. Payments will be received in the first quarter 2008.

Investment in property, plant and equipment during 2007 totaled EUR 17.3 million, compared with EUR 10.4 million during the same period last year. Most was earmarked for building new production facilities in Slovakia.

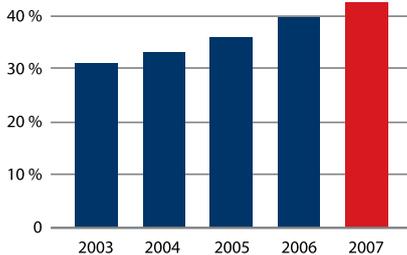
Owners equity

A meeting of the Board of Directors of Marel Food Systems hf on 29 November 2007 approved an increase to the company's share capital equivalent to 8% of its total issued share capital. The private placement brought the total number of shares at year-end 2007 to 400.4 million. In addition, the company holds 3.4 million treasury shares. The equity ratio was 42.5% in 2007 compared to 39.6% at year-end 2006. The current ratio stayed the same between years, at 1.9.

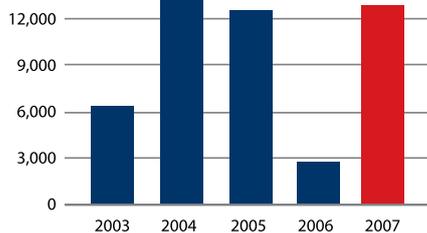
Current ratio



Equity ratio



Working capital from operation



Dividends

In 2007, the company paid EUR 824 thousand in dividends, which corresponds to EUR 0.22 per share, compared to EUR 601 thousand in 2006 which corresponds to EUR 0.25 per share.

Cash Flow

Operating activities provided net cash of EUR 2.8 million during the year, in comparison to the previous year when net cash of EUR 3 million went to operations. In 2007, operations generated working capital of EUR 13.0 million. At the end of the year, net cash totaled EUR 30.4 million, compared with 63.1 million at year-end 2006. The main reason for the change is investment in Stork NV shares, which totaled about EUR 41.6 million during 2007.

Implementation of IFRS

Marel Food Systems' financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), and have been since 2005.



Business operations

Marel Food Systems provides equipment to three main segments of the food processing industry: fish, meat and poultry, and offers solutions for other food processing and prepared foods. The company's brands cover numerous aspects of processing, from slaughtering and primary processing of raw material to packing and labeling of finished products. The company's comprehensive portfolio of components is designed to provide customers with integrated solutions from a single, reliable source.

In 2007, there was a major effort to integrate Sales and Service companies – now called Sales and Service Units – that had been operated by Marel Food Systems and Scanvaegt International. The structural integration of these companies has been concluded. The number of Sales and Services offices was reduced from 45 to 24, and a number of agent and distributor contracts were closed. All Sales and Service Units are now managed by Marel Food Systems.

A new corporate identity was introduced: Marel Food Systems, and the logos and trademarks of the business units were reduced and redesigned to reflect the changes.

Marel Food Systems' key markets are North America and Europe, and operations in 2007 continued to be reinforced in these areas. South American activities have been reorganized to build on the strength of various offices. Substantial growth was seen in 2007, where sales of standard products have increased and the groundwork for large projects has been laid. Special focus is on Eastern and Central Europe where existing Sales and Service Units have been strengthened, and a new Sales and Service Unit will open in Romania in 2008. Marel Food Systems has prioritized Eastern and Central Europe and South America as target markets, and 2008 will also see increased focus on Asia.

Processing segment	Slaughtering	Primary processing/ Packaging	Secondary processing/ Packaging	Estimated market size in 2007, EUR m
Product subgroup	Slaughtering	Basic Advanced	Further processing COLD HOT	
Poultry		— marel —> — scanvaegt —>		
Meat		— marel —> — scanvaegt —> — carnitech —>	— aew delford —>	
Fish		— marel —> — scanvaegt —> — carnitech —>		
Other		— ALL —>		
Estimated market size in 2007, EUR m				3,500

In 2007, the company secured major contracts with many of the world's largest fish, meat and poultry processors. These large contracts for processing solutions are a result of long-term sales and marketing efforts, which will support the company's organic growth.

Marel Food Systems has merged industry support for large projects across its Business Units from the beginning of 2008: sales of industrial projects will be measured as a whole, i.e. not based on individual activities of Business Units. This support system also applies to the fish, meat and poultry industries.

Fish industry

The seafood processing industry is continuing to adjust to wild-fish quotas being reduced, and aquaculture replacing wild fish on the plate. With the growth of aquaculture, new plants are being built that call for more automation. This trend is very positive for Marel Food Systems and creates new opportunities.

Fish species such as tilapia, sea bass and seabream, along with salmon, have replaced traditional species. Seafood is the most expensive protein source in the world. To remain competitive, therefore, seafood processors require solutions that ensure good handling, superior automation and yield control, and enhanced monitoring of yield and processing. This has created a myriad of new possibilities and opportunities for Marel Food Systems, as the industry is expected to continue investing in new processing solutions that focus on these trends.

In 2007, the global fish and fish farming industry continued the consolidation process, with some major mergers or acquisitions by private equity funds of old and established seafood companies.

Whitefish

Marel Food Systems experienced a significant increase in sales to the fisheries industry in 2007. Several large contracts were signed, and processing lines sold well in Iceland. The company's high market share in a business segment with a limited supply of raw material puts pressure on Product Development to introduce new solutions. Increased automation is essential for the whitefish industry. Marel Food Systems will meet these needs with robotic solutions, new software and X-ray technology, along with products based on existing technology and solutions.

Integrated solutions will also play a major role in future whereby waste-fish processing experience of Marel Food Systems is used to restructure work onboard factory trawlers, or redesign existing shore-based plants, in order to help customers maximize efficiency.

Salmon processing

Marel Food Systems continued to fortify its market position in the salmon industry in 2007. With strong core competences, products and solutions, the company is very well positioned, and is by far the largest supplier to the salmon processing industry.

The new ITM intelligent trimming machine was very well received in the market, and will have a major impact on salmon processing operations.

Increased processing of salmon has presented good opportunities for further growth. Carnitech Salmon has particularly benefited from this development with strong product sales.

Marel Foods System intends to maintain and strengthen its position within the salmon industry by working in closer cooperation with major suppliers.

Meat industry

Marel Food Systems' sales to the meat industry were good in 2007, although performance varied between brands. The sales network is adapting to the new products being offered from different business units. Large contracts were finalized and delivered to all continents, and signed contracts with delivery in 2008 will have a major influence on operations in 2008.

Within the meat industry, Marel Food Systems is focusing on the following segments:

- Deboning and trimming of meat with complete IT tracking and traceability systems. The company has a unique position in the market with respect to technology offered.
- Prepared meat processing system. Handling of the secondary product coming out of meat processing (ground beef, hamburgers, etc.), with focus on monitoring fat content in the process and turn-key solutions.
- Slicing and packing of meat, for example bacon. With increased automation using robotic technology and integration of machines to create a system solution, Marel Food Systems will strengthen its positions.



In addition, Marel Food Systems has a wide range of products to meet the needs of the meat industry, including beef, pork and lamb.

Sales of efficient management tools for yield control have been the driving force behind Marel Food System success during the year. Other factors such as traceability, hygiene and lack of available labor also play an important part in determining industry needs. Turn-key solutions are another trend in the industry, and here the company is seeing contract sizes larger than ever before.

Marel Food Systems expects growth in sales to the meat industry. Major restructuring of meat plants is occurring in Eastern and Central Europe where the European Union has made restructuring funds available. In South America, companies are embracing the new processing concepts provided by Marel Food Systems.

In 2007, the meat industry experienced significant increases in corn prices due to requirements in the United States that allocated part of the harvest for fuel production. Higher prices are hitting the meat industry harder than the other protein industries. This calls for further pressure to optimize meat production, and could in the short-term affect sales of Marel Food Systems, but in the long-term will create good opportunities.

Poultry industry

Sales to the poultry sector remained good in 2007. Increased sales and growth in this sector were evident across Marel Food Systems. Bird flu is still a predominant issue in the industry, but the effect on the company has not been adverse. To the contrary, Marel Food Systems' proven traceability solutions have made it a preferred supplier to many of the major poultry producers in the world. The company's ability to provide large-scale turn-key solutions has helped it maintain its leadership position in an industry where intense global competition focuses on the need to improve efficiency and yield while reducing giveaway.

The company maintained a strong market position on all of its markets, while increasing its coverage in the emerging markets. Eastern and Central Europe are becoming important markets for Marel Food Systems, as is South America.

Poultry is the fastest growing protein industry in the world, and has the most economical feed conversion ratio.

The poultry industry will play a major role for Marel Food Systems, both in established and emerging markets.

Marel Food Systems have put major effort into developing solutions for the poultry industry. Areas of special focus are in the following applications:

- Robotic solutions for grading, batching and positioning of products. Two product development teams are working on robotic applications. Sales were robust in 2007, and will continue to grow in 2008.
- Portioning solutions to optimize the conversion of raw materials to valuable products.
- X-ray solutions to inspect poultry meat for bones.
- Grading and logistic solutions for new poultry plants, or the rebuilding of older ones.
- Conditioning of products to optimize processing. For example, this is accomplished by temperature control (chilling or crust freezing), flattening or grading.

Marel Food Systems' product range has placed it in a very strong position in the poultry market. The company is meeting the needs in all major markets.

To further support solutions, Marel Food Systems is offering software for yield and management control, as well as various equipment for weighing and cutting.

Other

Software solutions

The company focuses on dynamic software development. A new platform has been established for software. The IT strength of Marel and Scanvaegt has been merged into a new platform, and products based on this platform are marketed under the name INNOVA. Innova software will strengthen the position of the company and meet food-industry needs. With Innova, the company will become the leader in IT products for food processing factories and provide a strong revenue base.

Prepared foods and other food industries

Marel Food Systems will continue to develop opportunities in other food industries, as the technology and the solutions are available for these industries. The company has supplied products and solutions to the cheese, vegetable, fruit and ready-made meals sectors, and will continue to explore opportunities and adapt products to emerging needs. Of special interest are applications involving slicing, weighing, packing and mixing ingredients into consumer packs.

Culture of innovation

Marel Food Systems is a global leader in developing and marketing high-tech processing equipment for the food processing industry that substantially increases productivity. To consistently maintain this leadership position, the company operates strong research and development teams that focus on using new as well as existing technologies to create innovative solutions to current and emerging production challenges.

This vigorous research and development strategy is supported by an annual investment in innovation of 5-7% of revenue, which is above the industry average. Highly qualified researchers and technicians, excellent working relationships with managers in the various food processing industries and a pioneering mindset have shaped Marel Food Systems' successful R&D activities.

'Return on Innovation'

In 2007, the focus of integration activities shifted to innovation and product development. Return on Innovation was chosen as the theme in the integration process to highlight the importance of innovation and its role in creating value for the customer.

A new organizational structure was introduced to fuel innovation within application segments such as grading, cutting and production control software, and to harvest and share knowledge across the five business units: AEW Delford, Carnitech, Marel, Scanvaegt and Marel Food Systems s.r.o. in Slovakia. The entire product range was evaluated and development efforts on overlapping products have been minimized. This has created many opportunities for more efficient new-product development without increasing R&D costs. More than 200 employees worked in product development during 2007.

Knowledge

Marel Food Systems employs a highly qualified team of scientists and technicians. Their primary task is to increase knowledge of new technologies in order to strengthen the company's technological base. This research work is in addition to product development activities, which continue to play a decisive role in the company's operations.

Marel Food Systems maintains strong connections with the scientific community by participating in international research projects, welcoming research guests and providing scientists with research facilities for special projects that are applicable to the company's operational fields. The company also supports the teaching of science and mathematics.

Patents and trademarks

Patent protection is vital to Marel Food Systems as its value and strong position are, to a large degree, built on technological innovation and employee experience. The company's investments are primarily in the knowledge and expertise of employees. For this reason the company is very involved in protecting the proprietary rights of its product development activities.



AEW Delford's Robotic Batching System



Fulfilling expanding customer needs

Marel Food Systems marketed more than 30 new products during 2007 under four brand names; Carnitech, AEW Delford, Scanvaegt and Marel. All products are designed to improve processing productivity throughout the entire value chain in the fish, meat and poultry industries.

Among these new products are the following:

Robotic Batching System

Both AEW Delford and Scanvaegt introduced products in the field of robotic batching. This new product from AEW Delford gives our customers a high degree of automation, greatly improving what is presently a manually intensive process. The product offers broad flexibility regarding the product packaging format and range of pack sizes produced.

Salmon Deheader

Carnitech's new Salmon Deheader is designed for automatic deheading and tail cutting of salmon. It minimizes product handling and contributes to less labor intensive production. Operation costs are reduced, and yield is increased due to better control of deheading, tail cutting and filleting processes.

Carnitech's Salmon Deheader

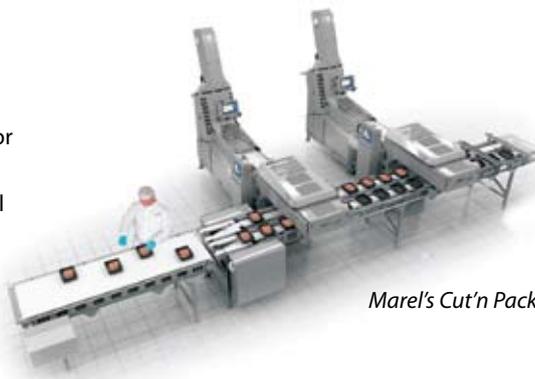


ScanPortioner B22

The Scanvaegt's ScanPortioner B22 is an advanced dual-lane portion cutter designed for processing companies that want to achieve high portioning capacity for fixed-weight and/or length-specific products.

Fixed Weight Cut'n Pack Solution

Marel's Cut'n Pack Solution, based on two new products, delivers fixed-weight meat portions directly into trays ready for sealing and packing. The Marel OptiCut optimizes the utilization of raw material, delivering stacked fixed weight portions ready for tray loading. The QuickLoader loads the portions into trays, ready for sealing and packing. This solution increases profitability and hygiene through better raw material utilization and less product handling.



Marel's Cut'n Pack Solution

*Scanvaegt's
ScanPortioner B22*





Consolidated financial statements for 2007

The Board of Directors' and CEO's Report

The consolidated financial statements for the year 2007 comprise the financial statements of Marel Food Systems hf (the Company) and its subsidiaries. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

A private placement of 33.5 million new shares and a stock option 3.2 million new shares in Marel Food Systems hf were sold for EUR 34.4 million. The total number of the Company's shares after the offering is 403,785,697.

Marel Food Systems hf., has entered into an agreement to acquire the Stork Food Systems division of Stork N.V. Through the acquisition Marel Food Systems will double its revenues and strengthen the platform for further internal growth and profitability. See also note 32.

Total sales of the Group according to the income statement were EUR 289 million in the year compared to EUR 208 million in the year 2006. Net profit of the Group amounted to EUR 6.1 million compared to EUR 0.2 million in the preceding year. Assets of the Group amounted to EUR 427 million according to the balance sheet and shareholders' equity amounted to EUR 182 million at year-end.

During the year an average of 2,129 employees were employed by the Group (at year end 2,245). Total wages and salaries for the group amounted to EUR 106.1 million.

The number of shareholders in Marel Food Systems hf at year end 2007 was 2,038, a decrease of 937 during the year. Three shareholders had a holding interest of more than 10% in the company, Eyfir Invest, with 31.25%, Landsbanki Íslands hf, with 21.01% and Grundtvig Investment with 12.93%.

The Board of Directors suggests no dividend to be paid in the year 2008, but refers to the financial statements regarding appropriation of the year's net profit and changes in shareholders' equity.

The Board of Directors and CEO of Marel Food Systems hf hereby ratify the Consolidated Financial Statements of Marel Food Systems hf for the year 2007 with their signatures.

Garðabær, 12 February 2008

Board of Directors



Arnar Pór Másson



Árni Oddur Þórðarson



Friðrik Jóhannsson



Helgi Magnússon



Lars Grundtvig



Margrét Jónsdóttir

Chief Executive Officer



Hörður Arnarson

Independent auditor's report

To the Shareholders and Board of Directors of the Marel Food Systems hf

We have audited the accompanying consolidated financial statements of Marel Food Systems hf and its subsidiaries (together; the Group) which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Garðabær, 12 February 2008.

PricewaterhouseCoopers hf



Þórir Ólafsson



Kristinn Freyr Kristinsson

Financial Ratios

	2007	2006	2005	2004	2003*
Operating results					
Sales	289,817	208,700	129,039	112,301	106,104
Gross profit	97,236	68,803	43,625	41,016	34,617
Profit before depreciation (EBITDA)	20,980	15,679	14,814	16,527	10,129
Profit from operations (EBIT)	10,029	7,527	9,721	12,066	6,568
Profit for the year	6,066	159	5,715	7,984	3,749
Cash flow statement					
Net cash from (to) operating activities	2,778	(2,992)	2,987	13,207	4,724
Investing activities	(70,249)	(69,754)	(10,180)	(6,389)	(1,955)
Financing activities	34,118	132,318	7,210	(7,263)	(1,153)
Financial position					
Total assets	427,304	364,793	114,890	95,482	81,334
Working capital	109,887	87,989	16,557	19,807	17,700
Equity	181,835	144,423	41,032	31,595	25,167
Various figures in proportion to sales					
Gross profit	33.6%	33.0%	33.8%	36.5%	32.6%
Selling and marketing expenses	15.5%	13.9%	12.4%	12.4%	12.8%
Research and development expenses	5.0%	5.6%	6.1%	5.8%	6.8%
Administrative expenses	10.0%	10.6%	8.7%	8.1%	8.1%
Wages and benefits	41.2%	42.7%	42.5%	41.9%	41.0%
Profit before depreciation (EBITDA)	7.2%	7.5%	11.5%	14.7%	9.5%
Depreciation/amortization	3.8%	3.9%	3.9%	4.0%	3.4%
Profit from operations (EBIT)	3.5%	3.6%	7.5%	10.7%	6.2%
Profit for the period	2.1%	0.1%	4.4%	7.1%	3.5%
Other key ratios					
Current ratio	1.9	1.9	1.4	1.6	1.7
Quick ratio	1.3	1.2	0.6	0.7	0.8
Equity ratio	42.5%	39.6%	35.7%	33.1%	30.9%
Return on owners' equity	3.7%	0.2%	18.1%	30.5%	16.5%
Return on total assets	1.5%	0.1%	5.4%	9.0%	4.6%
Price to earnings (P/E) last 12 months	73.5	-	36.7	17.7	19.7

*Amounts 2003 are not in conformity with IFRS.

Consolidated Income Statement

	Notes	2007 Q4	2006 Q4	2007	2006
Sales	5	78,869	71,946	289,817	208,700
Cost of sales		<u>(53,692)</u>	<u>(48,296)</u>	<u>(192,581)</u>	<u>(139,897)</u>
Gross profit		25,177	23,650	97,236	68,803
Other operating income		(66)	642	1,203	1,722
Selling and marketing expenses		(12,172)	(10,990)	(44,829)	(29,085)
Research and development expenses		(4,237)	(4,291)	(14,631)	(11,744)
Administrative expenses		<u>(7,100)</u>	<u>(7,933)</u>	<u>(28,950)</u>	<u>(22,169)</u>
Profit from operations		1,602	1,078	10,029	7,527
Finance costs - net	7	(2,277)	(1,264)	(7,091)	(5,026)
Share of results of associates	27	<u>5,125</u>	<u>(236)</u>	<u>4,602</u>	<u>(1,449)</u>
Profit before income tax		4,450	(422)	7,540	1,052
Income tax expense	9	<u>(1,077)</u>	<u>(93)</u>	<u>(1,474)</u>	<u>(893)</u>
Net profit		<u>3,373</u>	<u>(515)</u>	<u>6,066</u>	<u>159</u>
Attributable to:					
Equity holders of the Company		3,367	(520)	6,065	146
Minority interest		<u>6</u>	<u>5</u>	<u>1</u>	<u>13</u>
		<u>3,373</u>	<u>(515)</u>	<u>6,066</u>	<u>159</u>
Earnings per share for profit attributable to equity holders of the company during the year (expressed in EUR cent per share):					
- basic	10	0.91	-0.14	1.65	0.05
- diluted	10	0.90	-0.14	1.64	0.05

The notes on pages 50-75 are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

	Notes	31/12 2007	31/12 2006
ASSETS			
Non-current assets			
Property, plant and equipment	12	66,305	56,125
Goodwill	13	95,450	97,117
Other intangible assets	13	24,585	16,510
Investments in associates	27	3,281	939
Available-for-sale investments	28	631	744
Receivables	16	245	314
Loan to Associate	30	0	6,707
Derivative financial instruments	18	127	37
Deferred income tax assets	21	3,542	1,991
		<u>194,166</u>	<u>180,484</u>
Current assets			
Inventories	14	61,587	53,263
Production contracts	15	15,168	13,118
Trade receivables	16	52,871	47,306
Other receivables and prepayments	16	20,427	6,697
Loan to Associate	30	49,607	0
Derivative financial instruments	18	3,041	846
Cash and cash equivalents	17	30,437	63,079
		<u>233,138</u>	<u>184,309</u>
Total assets		<u><u>427,304</u></u>	<u><u>364,793</u></u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	25	4,452	4,048
Treasury shares	25	(38)	(3)
Share premium		147,584	115,369
Fair value and other reserves	26	(502)	(88)
Retained earnings		30,293	25,052
		<u>181,789</u>	<u>144,378</u>
Minority interest		<u>46</u>	<u>45</u>
Total equity		<u><u>181,835</u></u>	<u><u>144,423</u></u>
LIABILITIES			
Non-current liabilities			
Borrowings	19	115,327	119,744
Deferred income tax liabilities	21	6,380	4,306
Provision	22	11	0
Derivative financial instruments	18	500	0
		<u>122,218</u>	<u>124,050</u>
Current liabilities			
Trade and other payables	20	75,487	54,861
Derivative financial instruments	18	117	445
Current income tax liabilities		736	709
Borrowings	19	45,029	38,803
Provisions	22	1,882	1,502
		<u>123,251</u>	<u>96,320</u>
Total liabilities		<u>245,469</u>	<u>220,370</u>
Total equity and liabilities		<u><u>427,304</u></u>	<u><u>364,793</u></u>

The notes on pages 50-75 are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

	Notes	Attributable to equity holders of the Company				Minority interest	Total equity	
		Share capital	Share premium	Other reserves	Retained earnings			Total
Balance at 1 January 2006		2,629	12,671	225	25,507	41,032	0	41,032
Cash flow hedges:								
– net fair value gain/(loss), net of tax	26			676		676		676
Currency translation differences	26			(989)		(989)		(989)
Net income/(expenses) recognised directly in equity		0	0	(313)	0	(313)	0	(313)
Sale of treasury shares		29	1,651			1,680		1,680
Purchases of treasury shares		(24)	(1,734)			(1,758)		(1,758)
Employee share option scheme:								
- value of services provided			349			349		349
Business combination	31		0			0	32	32
Dividend related to 2005					(601)	(601)		(601)
Profit for the period					146	146	13	159
Issue of share capital		1,411	102,432			103,843		103,843
		1,416	102,698	(313)	(455)	103,346	45	103,391
Balance at 31 December 2006		4,045	115,369	(88)	25,052	144,378	45	144,423
Cash flow/net investment hedges:								
– net fair value gain/(loss), net of tax	26			645		645		645
Currency translation differences	26			(1,059)		(1,059)		(1,059)
Net income/(expenses) recognised directly in equity		0	0	(414)	0	(414)	0	(414)
Purchases/sale of treasury shares		(35)	(2,303)			(2,338)		(2,338)
Employee share option scheme:								
- value of services provided			557			557		557
Dividend related to 2006					(824)	(824)		(824)
Profit for the period					6,065	6,065	1	6,066
Issue of share capital		404	33,961			34,365		34,365
		369	32,215	(414)	5,241	37,411	1	37,412
Balance at 31 December 2007		4,414	147,584	(502)	30,293	181,789	46	181,835

The notes on pages 50-75 are an integral part of the consolidated financial statements.

Consolidated Cash Flow Statement

	2007	2006
	Notes	
Cash flows from operating activities		
Net profit	6,066	159
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and impairment of fixed assets	5,069	3,834
Amortisation and impairment of intangible assets	5,882	4,318
Currency fluctuations and indexation	260	(5,428)
Changes in deferred taxes	246	(788)
Share of results of associates	(4,602)	1,460
Other changes	66	(817)
Working capital provided by operating activities	<u>12,987</u>	<u>2,738</u>
Changes in operating assets and liabilities:		
Inventories and production contracts (increase)	(12,115)	(8,214)
Trade and other receivables (increase)	(20,399)	(2,137)
Short-term liabilities, increase	22,305	4,621
Changes in operating assets and liabilities	<u>(10,209)</u>	<u>(5,730)</u>
Net cash from (to) operating activities	2,778	(2,992)
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	28	0
Purchase of property, plant and equipment (PPE)	12	(17,328)
Purchase of intangibles	13	(13,266)
Purchase of associate investments	27	0
Loans made	(41,643)	(8,223)
Proceeds from sale of PPE	1,242	2,303
Proceeds from sale of shares	746	118
Net cash used in investing activities	<u>(70,249)</u>	<u>(69,754)</u>
Cash flows from financing activities		
Proceeds from issue of ordinary shares	34,638	59,018
Proceeds from (purchase of) treasury shares, net	(2,154)	271
Proceeds from borrowings	24,669	75,358
Repayments of borrowings	(13,434)	(10,095)
Finance lease principal payments	(865)	(569)
Changes in short-term bank loans	(7,912)	8,936
Dividend paid to group shareholders	(824)	(601)
Net cash from financing activities	<u>34,118</u>	<u>132,318</u>
Net increase (decrease) in cash and cash equivalents	(33,353)	59,572
Exchange losses on cash and bank overdrafts	711	(373)
Cash and cash equivalents at beginning of year	63,079	3,880
Cash and cash equivalents at end of year	<u>30,437</u>	<u>63,079</u>
Other information		
Interest paid	(3,573)	(2,431)
Income tax paid	(1,864)	(1,143)
Dividend received	8	3

The notes on pages 50-75 are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General information

Marel Food Systems hf. ("the company") and its subsidiaries (together "the group") manufactures, distributes and sells solutions for use in all major sectors of the food processing industry.

Marel Food Systems hf. is a limited liability company incorporated and domiciled in Iceland. The address of its registered office is Austurhraun 9, Gardabaer

The company has its listing on the OMX The Nordic Exchange in Iceland.

These consolidated financial statements have been approved for issue by the board of directors on 12 February 2008.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of Marel Food Systems (the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The accounting policies, as adopted by the EU, depart from full IFRS in few standards, interpretations and amendments that will have minor effects on future reporting of the group.

These consolidated 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.

Standards and amendment effective in 2007

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the group's financial instruments, or the disclosures relating to taxation and trade and other payables.

At date of authorisation of these financial statements, the following standards were in issue but not effective:

	Effective date
IFRS 8 Operating Segments	1 January 2009

The preparation of financial statements in accordance with IFRS 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 Consolidation

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 principal subsidiaries are listed in note 34.

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. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2.6).

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.

Notes to the Consolidated Financial Statements

Transactions and minority interests

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

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 identified on acquisition, net of any accumulated impairment loss (see Note 2.6).

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.

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.

Dilution gains and losses in associates are recognised in the income statement.

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.

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 2.9.

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).

Notes to the Consolidated Financial Statements

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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:

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 cost is expensed as incurred except when directly attributable to acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use. Such borrowing cost is capitalised as part of the cost of the asset when it is probable that it will result in future economic benefits to the entity and the cost can be measured reliably.

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.

Notes to the Consolidated Financial Statements

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 generate future economic benefits, 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. Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding five years).

Other intangible assets

Expenditure to acquire patents, trademarks and licenses is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 8 years. Intangible assets are not revalued.

2.7 Impairment of non-financial 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). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

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 2.12).

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.

Notes to the Consolidated Financial Statements

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

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

2.9 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:

- (a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- (b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- (c) hedges of a net investment in a foreign operation (net investment hedge).

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging 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.

Movements on the hedging reserve in shareholders' equity are shown in note 26. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other gains/(losses) – net'. Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognised in the income statement within 'finance costs'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other gains/(losses) – net'.

Notes to the Consolidated Financial Statements

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other gains/(losses) – net'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in case of inventory or in depreciation in case of fixed assets.

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 within 'other gains/(losses) – net'.

(c) 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 within 'other gains/(losses) – net'.

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

(d) Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any these derivative instruments are recognised immediately in the income statement within 'other gains/(losses) – net'.

2.10 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.

2.11 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).

Notes to the Consolidated Financial Statements

2.12 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 carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within sales. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against sales in the income statement.

2.13 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.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

2.15 Trade payable

Trade payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 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.

2.17 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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.

Notes to the Consolidated Financial Statements

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.

2.18 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.

2.19 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 the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses. 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.

2.20 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.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from fixed-price contracts for delivering design services and solutions is recognised under the percentage-of-completion (POC) method. Under the POC method, revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.

Notes to the Consolidated Financial Statements

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.

2.21 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.

2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.23 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 the year.

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 program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out within the group where applicable under policies approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to UK pound and US dollar. 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.

The group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

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At 31 December 2007, if the functional currency had weakened/strengthened by 1% against the UK pound with all other variables held constant, post-tax profit for the year would have been EUR 241 lower/higher as a result of foreign exchange gains/losses on translation of UK pound-denominated financial instruments. The sensitivity of UK pound-denominated financial instruments is relatively similar to last year.

At 31 December 2007, if the functional currency had weakened/strengthened by 1% against the SKK, the Slovak Koruna, with all other variables held constant, post-tax profit for the year would have been EUR 82 lower/higher, mainly as a result of foreign exchange gains/losses on translation of SKK denominated borrowings. Profit is more sensitive to movements in functional currency/SKK exchange rates in 2007 than 2006 because of the increased amount of SKK borrowings.

(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.

(iii) Cash flow and fair value interest rate risk

The group's 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 60% of its borrowings in fixed rate instruments. During 2007 and 2006, the group's borrowings at variable rate were denominated in EUR and DKK.

Based on the various scenarios, 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. Generally, 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, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

Occasionally the group also enters into fixed-to-floating interest rate swaps to hedge the fair value interest rate risk arising where it has borrowed at fixed rates in excess of the 60% target.

At 31 December 2007, if interest rates on functional currency-denominated borrowings had been 0.1% higher/lower with all other variables held constant, post-tax profit for the year would have been EUR 16.4 lower/higher, as a result of higher/lower interest expense on floating rate borrowings. At 31 December 2007, if interest rates on DKK-denominated borrowings at that date had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year would have been EUR 223 lower/higher, as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. The credit quality of the customer is assessed, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored. 90% of sales to customers are settled in cash or letter of credit.

Exposure to credit risk

The carrying amount of financial assets represent the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was:

		Carrying amount	
	Note	2007	2006
Trade receivables	16	53,116	47,620
Other receivables and prepayments	16	20,427	6,697
Loan to Associate	30	49,607	6,707
Derivative financial instruments	18	3,168	883
Cash and cash equivalents	17	30,437	63,079
		<u>156,755</u>	<u>124,986</u>

Notes to the Consolidated Financial Statements

(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, group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2007	Carrying amount	Contractual cash flow	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years
Borrowings	160,356	193,705	55,510	9,207	98,864	30,124
Trade and other payables	73,760	73,760	73,760	0	0	0

The table below analyses the group's derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2007	Contractual cash flow	Less than 1 year	Between 1 and 2 years
Forward foreign exchange contracts – cash flow hedges			
Outflow	30,806	28,106	2,699
Inflow	33,525	30,596	2,929

At 31 December 2006	Contractual cash flow	Less than 1 year	Between 1 and 2 years
Forward foreign exchange contracts – cash flow hedges			
Outflow	32,903	30,814	2,089
Inflow	35,121	32,780	2,341

3.2 Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Group's share option program. Buy and sell decisions are made on a specific transaction basis by the Board; the group does not have a defined share buy-back plan.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as 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 that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Notes to the Consolidated Financial Statements

4. Critical accounting estimates and assumptions

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.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value in use calculation. These calculations require the use of estimates.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The group has used discounted cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

(c) Revenue recognition

The Group uses the percentage-of-completion method in accounting for its sales of goods and production contracts. Use of the percentage-of-completion method requires the Group to estimate the stage of completion to date as a proportion of the total work to be performed.

Notes to the Consolidated Financial Statements

5. Segment information

Business segments

At 31 December 2007, 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 year ended 31 December 2007 are as follows:

	Fish	Poultry	Meat	Unallocated	Group
Total gross segment sales	111,022	88,014	102,958	69,647	371,641
Inter-segment sales	(14,419)	(11,072)	(8,643)	(47,690)	(81,824)
Sales	<u>96,603</u>	<u>76,942</u>	<u>94,315</u>	<u>21,957</u>	<u>289,817</u>
Operating profit					10,029
Finance costs - net					(7,091)
Share of results of associates					4,602
Profit before tax					<u>7,540</u>
Income tax expense					(1,474)
Profit for the year					<u>6,066</u>

The segment results for the year ended 31 December 2006 are as follows:

	Fish	Poultry	Meat	Unallocated	Group
Total gross segment sales	86,842	57,320	62,069	43,282	249,513
Inter-segment sales	(3,432)	(13,358)	(3,713)	(20,310)	(40,813)
Sales	<u>83,410</u>	<u>43,962</u>	<u>58,356</u>	<u>22,972</u>	<u>208,700</u>
Operating profit					7,527
Finance costs - net					(5,026)
Share of results of associates					(1,449)
Profit before tax					<u>1,052</u>
Tax expense					(893)
Profit for the year					<u>159</u>

The group does not allocate assets, liabilities, depreciation, amortization, impairment charge and capital expenditures between business segments.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Secondary reporting format – geographical segments

The Group's three business segments operate in four main geographical areas, even though they are managed on a worldwide basis.

The home country of the Company – which is also the main operating company – is Iceland.

Sales	2007	2006
Iceland	2,449	4,889
Europe other	214,527	145,375
North America	56,163	45,914
Other countries	16,678	12,522
	<u>289,817</u>	<u>208,700</u>

Sales are allocated based on the country in which the customer is located.

Notes to the Consolidated Financial Statements

	2007	2006
Total assets		
Iceland	310,492	267,458
Other countries	116,812	97,335
	<u>427,304</u>	<u>364,793</u>

Total assets are allocated based on where the assets are located.

Capital expenditure		
Iceland	8,133	11,619
Other countries	22,462	6,601
	<u>30,595</u>	<u>18,220</u>

Capital expenditure is allocated based on where the assets are located.

6. Quarterly results

	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Sales	78,869	66,087	72,617	72,244	71,946
Cost of sales	(53,692)	(44,215)	(47,853)	(46,821)	(48,296)
Gross profit	<u>25,177</u>	<u>21,872</u>	<u>24,764</u>	<u>25,423</u>	<u>23,650</u>
Other operating income	(66)	124	770	375	642
Selling and marketing expenses	(12,172)	(10,398)	(11,751)	(10,508)	(10,990)
Research and development expenses	(4,237)	(3,122)	(3,631)	(3,641)	(4,291)
Administrative expenses	(7,100)	(6,711)	(6,733)	(8,406)	(7,933)
Profit from operations (EBIT)	<u>1,602</u>	<u>1,765</u>	<u>3,419</u>	<u>3,243</u>	<u>1,078</u>
Finance costs - net	(2,277)	(1,894)	(1,752)	(1,168)	(1,264)
Share of results of associates	5,125	(6,836)	6,598	(285)	(236)
Profit (loss) before tax	<u>4,450</u>	<u>(6,965)</u>	<u>8,265</u>	<u>1,790</u>	<u>(422)</u>
Income tax expense	(1,077)	1,208	(824)	(781)	(93)
Profit for the year	<u>3,373</u>	<u>(5,757)</u>	<u>7,441</u>	<u>1,009</u>	<u>(515)</u>
Profit before depreciation (EBITDA)	4,841	4,614	5,881	5,644	3,730

	2007	2006
7. Finance costs – net		
Interest expense:		
- borrowings	(8,465)	(8,981)
- finance leases	(177)	(53)
- other interest expenses	(379)	(146)
	<u>(9,021)</u>	<u>(9,180)</u>
Interest income	1,910	2,463
Other finance income (cost)	8	67
Net foreign exchange transaction gains/(losses)	12	1,523
Gain (loss) on sale of subsidiaries	0	101
	<u>(7,091)</u>	<u>(5,026)</u>

8. Staff costs

Wages	106,151	79,920
Related expenses	13,194	9,167
	<u>119,345</u>	<u>89,087</u>
Staff costs analyses as follows in the income statement:		
Cost of sales	63,007	47,869
Selling and marketing expenses	27,478	17,034
Research and development expenses	11,958	10,490
Administrative expenses	16,902	13,694
	<u>119,345</u>	<u>89,087</u>

Notes to the Consolidated Financial Statements

9. Income tax expense

	2007	2006
Current tax	1,228	1,680
Deferred tax (Note 21)	246	(787)
	<u>1,474</u>	<u>893</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	7,540	1,052
Tax calculated at domestic tax rates applicable to profits in the respective countries	1,932	1,088
Permanent differences for tax purposes	(528)	(58)
Change in tax percentage	(281)	0
Impacts from previously unrecogn. tax losses/asset not recognized and other items	351	(137)
Tax charge	<u>1,474</u>	<u>893</u>

The weighted average applicable tax rate was 20% (2006: 85%).

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.

	2007	2006
Net profit attributable to equity holders	6,065	146
Weighted average number of outstanding shares in issue (thousands)	368,343	280,816
Basic earnings per share (EUR cent per share)	<u>1.65</u>	<u>0.05</u>

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.

	2007	2006
Net profit used to determine diluted earnings per share	6,065	146
Weighted average number of outstanding shares in issue (thousands)	368,343	280,816
Adjustments for share options (thousands)	2,264	1,447
Weighted average number of outstanding shares for diluted earnings per share (thousands)	<u>370,607</u>	<u>284,497</u>
Diluted earnings per share (EUR cent)	<u>1.64</u>	<u>0.05</u>

11. Dividend per share

The dividends paid in March 2007 and March 2006 were EUR 824 (EUR 0.22 cents per share) and EUR 601 (EUR 0.25 cents per share) respectively.

Notes to the Consolidated Financial Statements

12. Property, plant and equipment

	Land & buildings	Plant & machinery	Vehicles & equipment	Total	
At 1 January 2006					
Cost	27,872	12,002	7,100	46,974	
Accumulated depreciation	(2,463)	(7,593)	(3,676)	(13,732)	
Net book amount	25,409	4,409	3,424	33,242	
Year ended 31 December 2006					
Opening net book amount	25,409	4,409	3,424	33,242	
Business combination	11,893	2,190	3,639	17,722	
Exchange differences	163	103	(123)	143	
Additions	5,061	2,796	2,545	10,402	
Disposals	(880)	(91)	(579)	(1,550)	
Depreciation charge	(406)	(1,572)	(1,856)	(3,834)	
Closing net book amount	41,240	7,835	7,050	56,125	
At 31 December 2007					
Cost	45,813	18,078	15,750	79,641	
Accumulated depreciation	(4,573)	(10,243)	(8,700)	(23,516)	
Net book amount	41,240	7,835	7,050	56,125	
Year ended 31 December 2007					
Opening net book amount	41,240	7,835	7,050	56,125	
Exchange differences	(336)	(278)	(262)	(876)	
Additions	8,282	3,039	6,007	17,328	
Disposals	0	(71)	(1,132)	(1,203)	
Depreciation charge	(526)	(1,812)	(2,731)	(5,069)	
Closing net book amount	48,660	8,713	8,932	66,305	
At 31 December 2007					
Cost	53,749	20,242	17,856	91,847	
Accumulated depreciation	(5,089)	(11,529)	(8,924)	(25,542)	
Net book amount	48,660	8,713	8,932	66,305	
			2007	2006	
Depreciation of property, plant and equipment analyses as follows in the income statement:					
Cost of sales				3,287	2,542
Selling and marketing expenses				744	470
Development expenses				256	292
Administrative expenses				782	530
			5,069	3,834	

Building in Austurhraun 9 is pledged with letter of indemnity (LOI), amount USD 7.3 million.

Notes to the Consolidated Financial Statements

13. Intangible assets

	Goodwill	Development costs	Trade name	Patents	Software	Total
At 1 January 2006						
Cost	9,580	8,092	0	329	97	18,098
Accumulated depreciation	0	0	0	0	0	0
Net book amount	<u>9,580</u>	<u>8,092</u>	<u>0</u>	<u>329</u>	<u>97</u>	<u>18,098</u>
Year ended 31 December 2006						
Opening net book amount	9,580	8,092	0	329	97	18,098
Business combination	87,169	3,868	0	266	346	91,649
Exchange differences	368	8	0	1	4	381
Additions	0	6,716	0	710	391	7,817
Amortisation charge	0	(3,736)	0	(415)	(167)	(4,318)
Closing net book amount	<u>97,117</u>	<u>14,948</u>	<u>0</u>	<u>891</u>	<u>671</u>	<u>113,627</u>
Year ended 31 December 2007						
Opening net book amount	97,117	14,948	0	891	671	113,627
Allocation of business combination	(4,693)	0	3,201	1,492	0	0
Exchange differences	(835)	(124)	0	(16)	(1)	(976)
Additions	3,920	8,418	0	507	421	13,266
Amortisation charge	(59)	(5,000)	0	(463)	(360)	(5,882)
Closing net book amount	<u>95,450</u>	<u>18,242</u>	<u>3,201</u>	<u>2,411</u>	<u>731</u>	<u>120,035</u>
At 31 December 2007						
Cost	95,509	26,978	3,201	3,289	1,258	130,235
Accumulated depreciation	(59)	(8,736)	0	(878)	(527)	(10,200)
Net book amount	<u>95,450</u>	<u>18,242</u>	<u>3,201</u>	<u>2,411</u>	<u>731</u>	<u>120,035</u>

	2007	2006
Amortisation of intangible assets analyses as follows in the income statement:		
Cost of sales	89	39
Selling and marketing expenses	128	36
Development expenses	5,519	4,106
Administrative expenses	146	137
	<u>5,882</u>	<u>4,318</u>

Purchase price allocation regarding acquisition of the share capital of Scanvaegt International A/S led to allocation from goodwill amount EUR 4.7 million to trade name EUR 3.2 million and patents EUR 1.5 million.

Patents of EUR 469 (2006: EUR 469) have been pledged as security for borrowings.

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 pre-tax 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 (11-28%) and discount rate (8-17,5%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

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.

The impairment test of goodwill did not result in impairment loss.

Notes to the Consolidated Financial Statements

	31/12 2007	31/12 2006
14. Inventories		
Raw materials	30,912	30,155
Work in progress	9,519	6,340
Finished goods	21,156	16,768
	<u>61,587</u>	<u>53,263</u>

The cost of inventories recognised as expense and included in 'cost of goods sold' amounted to EUR 104,605 (2006: EUR 81,138).

Inventories of EUR 8,951 (2006: EUR 7,049) have been pledged as security for borrowings.

15. Production contracts

Ordered work in process	37,282	25,963
Advances received on ordered work in process	(22,114)	(12,845)
	<u>15,168</u>	<u>13,118</u>

16. Receivables and prepayments

Current receivables:		
Trade receivables	55,946	50,201
Less: Provision for impairment of receivables	(2,830)	(2,581)
Trade receivables – net	53,116	47,620
Less non-current portion	(245)	(314)
Current portion	<u>52,871</u>	<u>47,306</u>
Other receivables and prepayments		
Pre-payments	13,269	4,303
Other receivables	7,158	2,394
	<u>20,427</u>	<u>6,697</u>

All non-current receivables are due within four years from the balance sheet date.

The carrying amounts of receivables and prepayments approximate their fair value.

As of 31 December 2007, trade receivables of EUR 20,486 were fully performing.

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2007, trade receivables of EUR 21.502 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. As of 31 December 2007, trade receivables of EUR 13.884 were impaired and provided for. The amount of the provision was EUR 2,830 as of 31 December 2007. The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	Gross amount	Impairment
Up to 3 months	21,502	0
Over 3 months	13,884	2,830
	<u>35,386</u>	<u>2,830</u>

Receivables of EUR 4,141 (2006: EUR 3,837) have been pledged as security for borrowings.

The carrying amounts of the group's trade and other receivables are denominated in the following currencies:

	2007
EUR	21,551
DKK	10,928
US dollar	9,725
UK pound	5,813
Other currencies	7,929
	<u>55,946</u>

Notes to the Consolidated Financial Statements

Movements on the group provision for impairment of trade receivables are as follows:

	2007	2006
At 1 January	2,581	748
Business combination	0	1,627
Provision for receivables impairment	1,403	235
Receivables written off during the year as uncollectible	(790)	60
Unused amounts reversed	(363)	(90)
At 31 December	2,830	2,581

The creation and release of provision for impaired receivables have been included in 'Sales' in the income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

17. Cash and cash equivalents

Cash at bank and in hand	30,437	63,079
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Bank overdrafts are considered to be financing activities in the cash flow statement.

18. Derivative financial instruments

	31 December 2007		31 December 2006	
	Assets	Liabilities	Assets	Liabilities
Interest-rate swaps – cash flow hedges	127	117	0	445
Currency interest-rate swaps – fair value hedges	1,775	500		
Forward foreign exchange contracts – cash flow hedges	1,266		883	
Total	3,168	617	883	445
Less non-current portion:				
Interest-rate swaps – cash flow hedges	127		37	
Currency interest-rate swaps – fair value hedges		500		
Total non-current	127	500	37	0
Current portion	3,041	117	846	445

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedge item is less than 12 months.

(a) Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2007 were EUR 30,805 (2006: EUR 32,902).

(b) Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2007 were EUR 10,530 (2006: EUR 3,845).

At 31 December 2007, the fixed interest rates vary from 3.3% to 7.98% (2006: 3.3% to 7.98%), and the main floating rates are EURIBOR, CIBOR and LIBOR. Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 31 December 2007 will be continuously released to the income statement until the repayment of the bank borrowings (note 19).

(c) Hedge of net investment in foreign entity

The group's net investment in UK subsidiary amounting to EUR 20,418 (2006: EUR 21,164) is hedged in full. The foreign exchange gain of EUR 704 (2006: loss of EUR 340) on translation of the borrowing to currency at the balance sheet date is recognised in other reserves, in shareholders' equity.

Notes to the Consolidated Financial Statements

19. Borrowings

	31/12 2007	31/12 2006
Non-current:		
Bank borrowings	29,337	20,246
Debentures	85,657	98,700
Finance lease liabilities	333	798
	<u>115,327</u>	<u>119,744</u>
Current:		
Bank overdrafts	21,919	25,050
Bank borrowings	2,632	11,613
Debentures	19,973	1,173
Finance lease liabilities	505	967
	<u>45,029</u>	<u>38,803</u>
Total borrowings	<u>160,356</u>	<u>158,547</u>

The borrowings include secured liabilities (leases and bank borrowings) in a total amount of EUR 50,768 (2006: EUR 40,245). The bank borrowings are secured over certain of accounts receivable and inventories. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

	Finance lease liabilities	Other borrowings	Total 31/12 2007	Total 31/12 2006
Liabilities in currency:				
Liabilities in CHF	0	2,311	2,311	505
Liabilities in DKK	202	48,716	48,918	50,672
Liabilities in EUR	234	20,358	20,592	31,208
Liabilities in GBP	142	1,465	1,607	873
Liabilities in ISK, index linked	0	73,469	73,469	67,386
Liabilities in JPY	0	161	161	84
Liabilities in NOK	0	380	380	1,570
Liabilities in SKK	0	8,706	8,706	0
Liabilities in USD	67	3,786	3,853	2,944
Liabilities in other currency	193	166	359	3,305
	<u>838</u>	<u>159,518</u>	<u>160,356</u>	<u>158,547</u>
Current maturates	<u>(505)</u>	<u>(44,524)</u>	<u>(45,029)</u>	<u>(38,803)</u>
	<u>333</u>	<u>114,994</u>	<u>115,327</u>	<u>119,744</u>
Annual maturates of non-current liabilities:				
Period 2009/2008	202	3,972	4,174	22,530
Period 2010/2009	72	3,212	3,284	3,510
Period 2011/2010	45	3,116	3,161	2,444
Period 2012/2011	14	76,439	76,453	2,411
Later	0	28,255	28,255	88,849
	<u>333</u>	<u>114,994</u>	<u>115,327</u>	<u>119,744</u>

Bank borrowings

Bank borrowings mature until 2027 and bear average coupons of 6.24% annually.

The exposure of the group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

6 months or less	22,361
6-12 months	19,973
1-5 years	98,710
Over 5 years	19,312
	<u>160,356</u>

Notes to the Consolidated Financial Statements

The carrying amounts and fair value of the non-current borrowings are EUR 115,327 and EUR 111,115 respectively. The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 7%.

The group has the following undrawn borrowing facilities:

	2007
Floating rate:	
– Expiring within one year	20,258
– Expiring beyond one year	1,957
	<u>22,215</u>

The facilities expiring within one year are annual facilities subject to review at various dates during 2008.

20. Trade and other payables

	31/12 2007	31/12 2006
Trade payables	24,389	19,989
Accruals	21,607	17,874
Deferred income	17,693	6,533
Other payables	11,798	10,465
	<u>75,487</u>	<u>54,861</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 2006	2,289
Business combination (Note 29)	786
Exchange differences and changes within the group	207
Income statement charge (Note 9)	893
Less current tax	(1,680)
Tax charged to equity	(180)
End of year 2006	<u>2,315</u>
1 January 2007	2,315
Exchange differences and changes within the group	28
Income statement charge (Note 9)	1,474
Less current tax	(1,228)
Tax charged to equity	249
End of year 2007	<u>2,838</u>

	2007	2006
The deferred tax charged/(credited) to equity during the period is as follows:		
Fair value reserves in shareholders' equity		
– hedging reserve	<u>193</u>	<u>217</u>

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

Notes to the Consolidated Financial Statements

	31/12 2007	31/12 2006
Deferred tax assets	(3,542)	(1,991)
Deferred tax liabilities	6,380	4,306
	<u>2,838</u>	<u>2,315</u>
Deferred income tax liability (assets) analyses on the following items:		
Non-current assets	6,864	5,820
Hedge reserve	231	38
Taxable loss carried forward	(4,975)	(3,761)
Other items	718	218
	<u>2,838</u>	<u>2,315</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 4,975 expire in the years 2009-2017.

22. Provisions

Warranty:

At 1 January 2006	794
Business combination	737
Changes entered into income statement	(29)
At 31 December 2006	<u>1,502</u>
At 1 January 2007	1,502
Changes entered into income statement	391
At 31 December 2007	<u>1,893</u>

	31/12 2007	31/12 2006
Analysis of total provisions:		
Current	1,882	1,502
Non current	11	0
	<u>1,893</u>	<u>1,502</u>

23. Contingencies

Contingent liabilities:

At year end 2007 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 22,267 (2006: EUR 3,307) to third parties.

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 10,529. The amount will be charged at the relevant rental time of each agreement. The rental agreements will materialise in the years 2008 - 2016.

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 173 million. The Group insurance value of buildings amounts to EUR 63 million, production machinery and equipment including software and office equipment amounts to EUR 57 million and inventories to EUR 61 million.

Notes to the Consolidated Financial Statements

25. Share capital

	Number of shares (thousands)	Ordinary shares	Treasury shares	Total
At 1 January 2006	238,271	240,064	(1,793)	238,271
Issue of shares	127,017	127,017	0	127,017
Treasury shares purchased	(1,951)	0	(1,951)	(1,951)
Treasury shares sold	2,495	0	2,495	2,495
At 31 December 2006	365,832	367,081	(1,249)	365,832
Issue of shares	36,705	36,705	0	36,705
Treasury shares purchased	(2,702)	0	(2,702)	(2,702)
Treasury shares sold	515	0	515	515
At 31 December 2007	400,350	403,786	(3,436)	400,350

The total authorised number of ordinary shares is 403,8 million shares (2006: 367 million shares) with a par value of ISK 1 per share (2006: ISK 1 per share).

26. Fair value reserves and other reserves

	Hedging reserve	Cumulative translation adjustment	Total
Balance at 1 January 2006	(277)	502	225
Cash flow hedges:			
– Fair value gain/(loss) in period	970	0	970
– Tax on fair value	(294)	0	(294)
Currency translation differences	0	(989)	(989)
Balance at 31 December 2006	399	(487)	(88)
Cash flow/net investment hedges:			
– Fair value gain/(loss) in period	838	0	838
– Tax on fair value	(193)	0	(193)
Currency translation differences	0	(1,059)	(1,059)
Balance at 31 December 2007	1,044	(1,546)	(502)

27. Investments in associates

	2007	2006
Beginning of year	(576)	0
Business combination	0	876
Additions	0	1
Translation difference	1	(4)
Sale of associate	(746)	0
Share of results	4,602	(1,449)
End of year	3,281	(576)
Negative balance presented among non-current receivables	0	1,515
At 31 December	3,281	939

28. Available-for-sale investments

At 1 January 2006	680
Impairment unwinding	64
At 31 December 2006	744
Dividend	(113)
At 31 December 2007	631

Available-for-sale investments, denominated in EUR, are unlisted equity securities traded on inactive markets and classified as non-current assets.

Notes to the Consolidated Financial Statements

29. 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. The acquired operation and company contributed revenues of EUR 72,949 for the period from acquisition to 31 December 2006.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:

- Cash paid	43,291
- Borrowings from seller	19,487
- New shares issued	44,429
- Direct cost relating to the acquisition	3,599
	<u>110,806</u>
Fair value of net assets acquired	<u>(23,700)</u>
Goodwill	<u>87,106</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	4,215
Property, plant and equipment	18,045
Investments in associates	876
Receivables, non-current	116
Inventories	20,486
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>23,700</u>
Goodwill	<u>87,106</u>
	<u>110,806</u>
Less:	
- New shares issued	(44,429)
- Borrowings from seller	(19,487)
Cash and cash equivalents in subsidiary acquired	<u>(1,158)</u>
Cash outflow on acquisition	<u>45,732</u>

30. Related party transactions

At the end of year 2007, there are no loans to directors (31 December 2006: EUR nil). In addition there were no transactions carried out (purchases of goods and services) between the group and the directors in the years 2006 and 2007.

During the years 2006 and 2007, a loan amounting to EUR 49.6 million was granted to LME Eignarhaldsfélag ehf. Marel Food Systems hf 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

	Payroll and benefits	Benefits from stock option	Stock options ¹	Bought shares acc. to stock options ²	Shares at year-end ¹
Bord fee for the year 2007 and shares at year-end					
Árni Oddur Þórðarson, Chairman ³⁾	66	0	0	0	126,200
Arnar Þór Másson, Board member.....	24	0	0	0	0
Friðrik Jóhannsson, Board member.....	24	0	0	0	400
Helgi Magnússon, Board member.....	24	0	0	0	4,786
Margrét Jónsdóttir, Board member.....	24	0	0	0	78
Lars Grundtvig, Board member..... ⁴⁾	20	0	0	0	52,201
	<u>182</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>183,665</u>

Management salaries and benefits for the year 2007 and shares at year end

Hörður Arnarson, CEO	459	553	3,000	971	1,676
Erik Steffensen, Director of Scanwaegt.....	161	0	100	0	7
Thorkild Christensen, Director of Carnitech.....	201	0	300	0	0
Directors in the Parent company.....	<u>1,642</u>	<u>823</u>	<u>2,550</u>	<u>1,495</u>	<u>3,435</u>
	<u>2,463</u>	<u>1,376</u>	<u>5,950</u>	<u>2,466</u>	<u>5,118</u>

1) Number of shares

2) All stock bought at a rate of ISK 42 pr. share according to stock option agreements.

3) Shares owned by Eyrir Invest, where Þórðarson is CEO including those of financially related parties

4) Shares owned by Grundtvig Invest AsP

31. Share options

Share options are granted to directors and to employees. The exercise price of the granted options in 2001 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). The exercise price of the granted options in January 2007 is equal to the market price of the shares on date of the grant (29 January 2007). The exercise price of the granted options in December 2007 is below the market price of the shares on date of the grant (3 December 2007). 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 2006		4,561
Exercised	42	(1,182)
Granted 2006	71	<u>14,235</u>
At 31 December 2006		17,614
Granted 2007	74	1,500
Granted 2007	92	1,315
Forfeited 2007	71	(492)
Exercised 2007	42	<u>(3,379)</u>
At 31 December 2007	73	<u>16,558</u>

Outstanding option granted 2006 and 2007 (exercise price 71 and 74) have expiry date 2010 plus one year in grace. Outstanding option granted 2007 (exercise price 92) have expiry date 2011 plus one year in grace

Notes to the Consolidated Financial Statements

32. Events after the balance sheet date

In November 2007 Marel Food Systems hf. signed an agreement to acquire the Stork Food Systems division of Stork N.V. The acquisition price is EUR 415 million on a debt and cash-free basis and with additional transaction costs which is estimated EUR 20 million. The acquisition is fully funded by proceeds of interests in LME Eignarhaldsfélag ehf. (EUR 53 million), an equity offering underwritten by Landsbanki (EUR 147 million, thereof EUR 30 million sold at year-end) and secured long term debt financing (EUR 235 million). The transaction closure is subject to a clearance from anti-trust authorities. Until the transaction is formally concluded, each company will continue to operate independently.

33. Fees to Auditors

	2007	2006
Audit of financial statements	557	365
Review of interim financial statements	203	146
Other services	237	178
	<u>997</u>	<u>689</u>

The amount includes payments of external auditors of all companies within the group.

34. Principal subsidiaries

Marel Chile S.A.	Chile
Marel Equipment Inc	Canada
Marel Food Systems	Slovakia
Marel Food Systems A/S	Denmark
Marel Food Systems GmbH & Co KG	Germany
Marel Food Systems Inc	USA
Marel Food Systems LLC	Russia
Marel Food Systems Ltd	Thailand
Marel Food Systems Pty Ltd	Australia
Marel Holding B.V.	Netherland
Marel Management GmbH	Germany
Marel Spain S.L.	Spain
Marel UK Ltd	UK
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.



Publication schedule for 2008-2009:

Reports

6 May 2008	1st Quarter
12 August 2008	2nd Quarter
4 November 2008	3rd Quarter
10 February 2009	4th Quarter
10 March 2009	Annual General Meeting

MEMBERS OF MAREL FOOD SYSTEMS

Caewdelford *Carnitech* *Marel* *Scanvaegt*



RETURN ON INNOVATION

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