

Annual Report 2004



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ANNUAL REPORT 2004

## WHAT WE DO



The Marel Group is a leading developer of advanced food-processing systems for the world market. The Group has always maintained its vision of leadership in the design and manufacture of weighing and grading equipment, computer vision systems, intelligent portioning machines, and turn-key processing solutions with full traceability.

From the outset, quality and reliability have played a major role in the Group's operations. In 1997 Marel hf received an ISO 9001 certification for its quality system, which covers product development, sales, manufacturing, and after-sales services.

Our vision is to be an international leader in developing and marketing high-tech processing equipment for the food processing industry in order to increase the productivity of our customers.

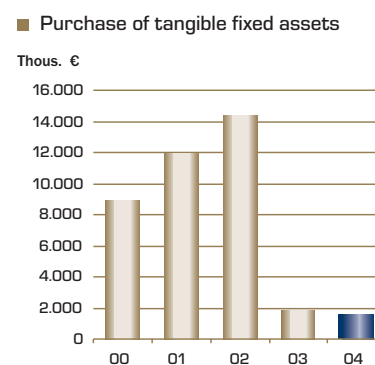
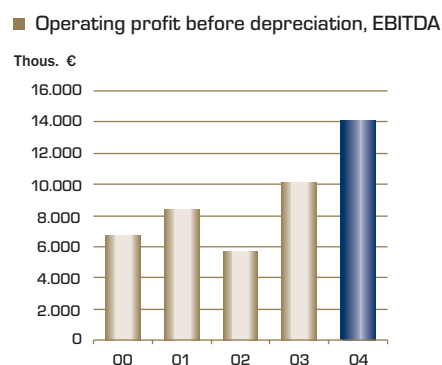
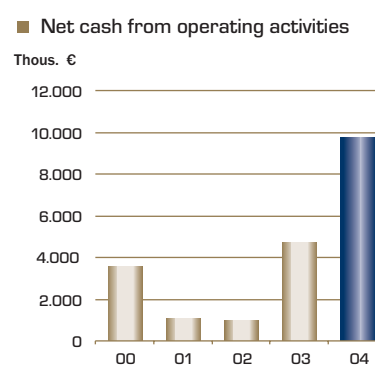
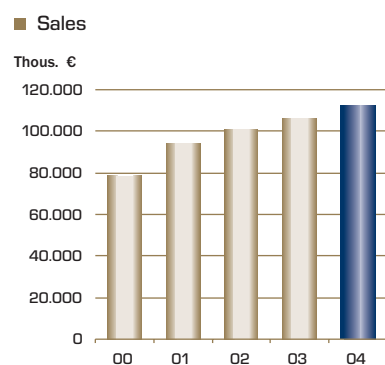
We do not take our lead for granted. Together, the companies and people who make up the Marel Group work vigorously to maintain that lead. Our ambition and focus, coupled with hard work and professionalism, has brought us to the position we enjoy today.

Processors worldwide have reaped the benefits of our products. From simple production flow improvements to large-scale turnkey processing plants featuring complex, intricate solutions, our team of dedicated professionals is motivated to achieve optimal results for food processing companies.



# FINANCIAL SUMMARY

- The year 2004 was the best operational year in the history of the Marel Group
- Sales for the year totalled € 112.3 million an increase of 6% from the previous year
- Profit from operations (EBIT) was € 10.6 million
- Net profit was € 6.6 million, an increase of 76% from the previous year
- Net profit per share was € 0.0282
- Net cash from operating activities was € 10.6 million



# CHAIRMAN'S ADDRESS

Marel is in the vanguard of companies in Iceland that have achieved significant success on international markets, and today ranks among the global leaders in its field of operations. The origins of the company can be traced to 1977, almost 30 years ago, when two specialists at the University of Iceland's Science Institute began experimenting on the possibility of utilising microchips to improve productivity in fisheries companies. Operations were difficult at first, and not until the beginning of the 1990s was it possible to say that the company had achieved a foothold, and began implementing the initiatives that have since become characteristic of the company.

## **Good results built on many concerted efforts**

There are numerous factors working in conjunction that explain Marel's success. First, Marel emerged from research at a university where there existed an understanding of technological possibilities on the one hand, and the fisheries industry on the other. Second, the company has benefited from the perseverant efforts of a well-educated staff that have had an unfaltering belief in the company's potential. Third, key investors joined the company at a time when there was a vital need for an infusion of capital, and were prepared to support the company's growth. Finally, the company board and management have perennially been able to work well together on implementing the company's development strategy, and through judicious deliberation and determination have grown the company into a multinational high-tech operation that develops and manufactures equipment, software and solutions for the food industry in the fields of fish, meat and poultry processing.

## **Internal and external growth will increase the company's value**

The company's growth is built on internal growth, as well as external growth through the purchase of other companies in similar fields. The parent company, Marel, drives the Group's development strategy, while subsidiaries Carnitech, Póls and CP Food Machinery have, under the Partners in Processing umbrella, worked to some extent on specialised areas of equipment manufacture. It is and has been the policy of Marel to invest solely in reliable and financially strong companies in those fields of operations that fit in with the company's vision and development strategy. Also important is for investment in product development or other companies to add value to shareholders' investment in the company.

## **Managers do not allow adversity to stop them**

There has been a significant turnaround and financial improvement in Marel's operations in the years 2003 and 2004, reflected by a considerable increase in the company's stock price. The market has seen increased belief in the company, and there is an ever-growing awareness that Marel is attaining an ongoing uptrend in operations, and that its market position on global markets has become very strong. Difficult external conditions resulting in the Icelandic krona exchange rate to strengthen significantly, and a reduction in investment in equipment by the food industry, has placed considerable pressure on the company's management. Managers have been admirably successful in increasing rationalisation in operations while strengthening the company's competitive position, without slackening on product development. This explains improved productivity in operations, and the capacity to attain satisfactory operating results.

## **The importance of high-tech industry in Iceland**

There has not been sufficient understanding in Iceland on the importance, and the possibilities, of the high-tech industry, and conditions in this field are not as favourable as in some others, for example power-intensive industry. Over 800 people work for Marel on 5 continents, of which 300 are in Iceland. These are generally well-educated employees earning good salaries. The company and its employees are generating significant value to the society, and the importance of Marel in this connection is much more than a medium-size aluminium smelter. It is therefore ironic that at the same time as the national debt is being increased because of investment in power-intensive industry, that is a growing deficit on the balance of payments, and that operations are provided various forms of support including special legislation, opportunities in high-tech industries such as Marel's are expanding abroad rather than at home. The danger is that those

*Borkell Sigurlaugsson, Chairman*



jobs will not return. At the same time as we weaken the position of export fields and increase the deficit on the balance of payments, we import a work force with little education to work in power-intensive industries. There is reason for concern, not necessarily for Marel since the company would be able to increase its operations abroad, but particularly for the government if it wants to generally support and advance high-tech industries and the level of specialised employment in Iceland.

### **Bright future for Marel**

It is the policy of Marel's board that the company grows substantially in the coming years, which will further strengthen its leading position on the global market. In addition, the goal is to achieve good operating performance, and on average not less than we have experienced of late. Marel's future is bright, but experience demonstrates that there will always be fluctuations in operations in step with the investment and operational situation of Marel's customers.

I would like to thank my fellow board members, the managing director, and all of Marel's co-workers for their fine cooperation and excellent work. I would also like to thank our shareholders for the great support shown the company, and our customers for the loyalty they have demonstrated toward the company. I am convinced that Marel will over the coming years be one of Iceland's most dynamic companies on the international marketplace. Hopefully, economic requisites and operational conditions in Iceland will be such that the company will see it as beneficial to have a sizeable operation in Iceland, which will generate increasing economic growth and prosperity for Icelanders.

Borkell Sigurlaugsson  
Chairman of the Board

A handwritten signature in blue ink that reads "Borkell Sigurlaugsson".

# DIRECTOR'S ADDRESS

## Operation

Several factors made 2004 the best operational year in the history of the Marel Group. The Group focused on increasing profitability and decreasing production costs by standardising production and exercising economy in purchasing. Ongoing investment in internal growth was driven by strong product development, and strengthening sales and marketing activities.

Opportunities for external growth were developed by the acquisition of two new companies in 2004: Póls in Iceland, and a part of the operation of the German company Röscherwerke GmbH. The acquired part operates under the trademark Geba. Both companies offer products that fit well into the Marel Group's product range. The synergistic effect of the merger has been beneficial for both the cost and revenue sides of business.

## Markets

The Group's key markets have been North America and Europe, and the Group continued to reinforce operations in these markets in 2004. At the same time, effort was focused on market expansion by increasing operations in key growth markets such as Eastern Europe, South America, Asia and Australia, where excellent opportunities exist for the Group's solutions. To strengthen the expanding South American market, the Group established a Marel subsidiary in Chile.

Despite some decline in investment by the North Atlantic fisheries industry, especially shrimp processing, and by Asian poultry producers, the Group 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 have delivered the Group its best annual performance to date.

## Customers

The Marel Group works hand in hand with food processing companies on all continents to produce the best possible solutions for varying processing needs. Among the aquaculture industry, 21 out of the top 23 processors are our customers, and the statistics are similar in whitefish. Out of the top 50 meat and poultry processors in the world, 42 are our customers.

Cooperation with customers is a key issue when developing new solutions, as the Group constantly monitors current and emerging trends and requirements within each industry sector. Our customers must respond to changes in their customer requirements, an ongoing development that the Marel Group monitors diligently. We focus on helping our customers maximise profits by increasing yield, throughput and efficiency.

To improve customer services, the Group introduced the Partners in Processing scheme in 2004. Intended primarily to utilize the full range of complete solutions offered by the companies that comprise the Marel Group, Partners in Processing has successfully resulted in increasing awareness of the Group's full product range.

## Product development

One of the primary factors in a successful operation is progressive product development. The Marel Group annually invests 6-7% of revenues in product development to strengthen its leading position on the market and fulfil customer needs. Product standardisation was one of the objectives for 2004, and it proved to be a successful factor in increasing efficiency, lowering production costs and strengthening the Group's competitive position.

A host of new products was introduced in 2004. A new generation of Intelligent Portioning Machines designed for portioning large meat primals and other large products came to market. New processing flowlines and traceability systems for the poultry and meat industries met with great success, as traceability requirements have become imperative for producers in these sectors. Deboning solutions for whitefish and salmon were also introduced in 2004.





Hörður Arnarson, Director

The Group saw an emerging trend for further processing solutions for the meat industry, and established an operation that develops and produces machinery and processing lines for burgers, minced meat, salami and sausage lines. This has fast become one of the growth sectors for a part of the Group.

A new line of Quality Assurance and Control systems based on advanced X-ray and vision technology was produced. The Sensor X QA concept was expanded into the poultry industry for bone analysis, and a new QVision Quality Assessment system was developed. Software development was strengthened and several new modules were introduced in 2004, most notably the MPS QC software, that can be used with fish, meat and poultry quality assessment systems.

The Group carries out an active patenting strategy to secure its position as a leading developer of high-tech solutions for the processing industries. The strategy is designed to protect the intellectual property and unique solutions created within the Group's product development processes. The Group applied for 8 patents in 2004.

### Stock development

One of the main corporate goals is to maximise the Group's stock value. An 80% increase in stock value occurred in 2004, a continuation of the successful increase of 54% in 2003. The group's stock turnover rate on the Iceland Stock Exchange in 2004 was 69%. Market-making is provided by the MP Investment Bank, which has led to a lower spread and more active trading. The average spread in 2004 was 0.96%.

### Paid dividends

The Marel Group paid a dividend of 15% of nominal value in 2004. Most of the year's net profit was earmarked to finance the growth of the Group, including future growth through product development and marketing activities. The Marel Group will continue to utilize growth opportunities as they present themselves.

### Prospects

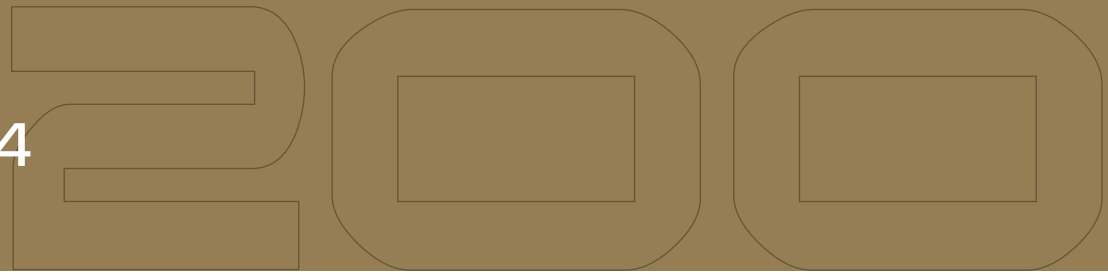
The group's order book at the end of 2004 totalled € 19 million, compared with € 9 million at the beginning of the year. Intensive product development and the ongoing work over the years to bolster the company's marketing operations have placed the company in a strong competitive position. Prospects on the company's primary markets are currently satisfactory.

Trends in exchange rates, however, have been unfavourable for the company. The strengthening of the Icelandic krona has increased expenses, while the weaker dollar against the euro has resulted in decreased income. Increased oil prices have brought about increased prices of various raw materials, in particular plastics and stainless steel. There are still opportunities to increase productivity and reduce operating expenses with continued emphasis on expanding the company's standardised products, as well as increasing rationalisation in purchasing.

Hörður Arnarson  
Director



# NEWS 2004



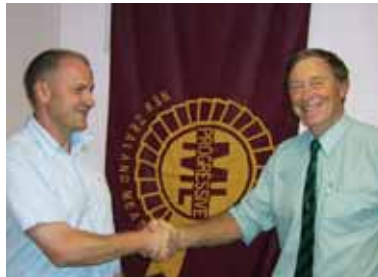
## Marel opens subsidiary in Chile

Marel opened a subsidiary in Puerto Montt, Chile in late March. Sverrir Gudmundsson, who has been with Marel for over 16 years, heads the operation. By establishing a local sales and service office, Marel is better equipped to provide direct service and support to Marel customers in Chile specifically, and South-America in general.



## First Lamb Flowline in New Zealand

In May 2004, Marel Australia signed a milestone contract with Progressive Meats Ltd. for the first full-size Marel lamb flowline to be installed in New Zealand. The new flowline will radically change the way lamb meat is processed at Progressive Meats.



## New Meat and Poultry Division at Marel Spain

In July, Marel Spain strengthened its sales and services operation for the meat and poultry industries with a new meat and poultry division. Headed by Mr. Michael Fleau, who has extensive experience in the food processing industry, the new division focuses on the expanding meat and poultry customer-base in Spain.



## Marel receives IR Magazine awards 2004 for investor relations

Marel accepted the "Best small cap Icelandic company investor relations" award at the IR Magazine Nordic Awards ceremony held in Finland on May 26, 2004. Marel CEO Hordur Arnarsson was nominated in the "Best investor relations by a CEO/CFO" category in Iceland.



## Marel acquires Póls

In March 2004 Marel acquired all shares in Icelandic equipment manufacturer Póls. The acquisition expanded the Marel Group's customer base and service network. Póls specializes in the development and manufacture of weighing and packing solutions for the fish processing industry. The acquisition is an opportunity to increase the synergy of purchasing, sales and marketing within the Group.

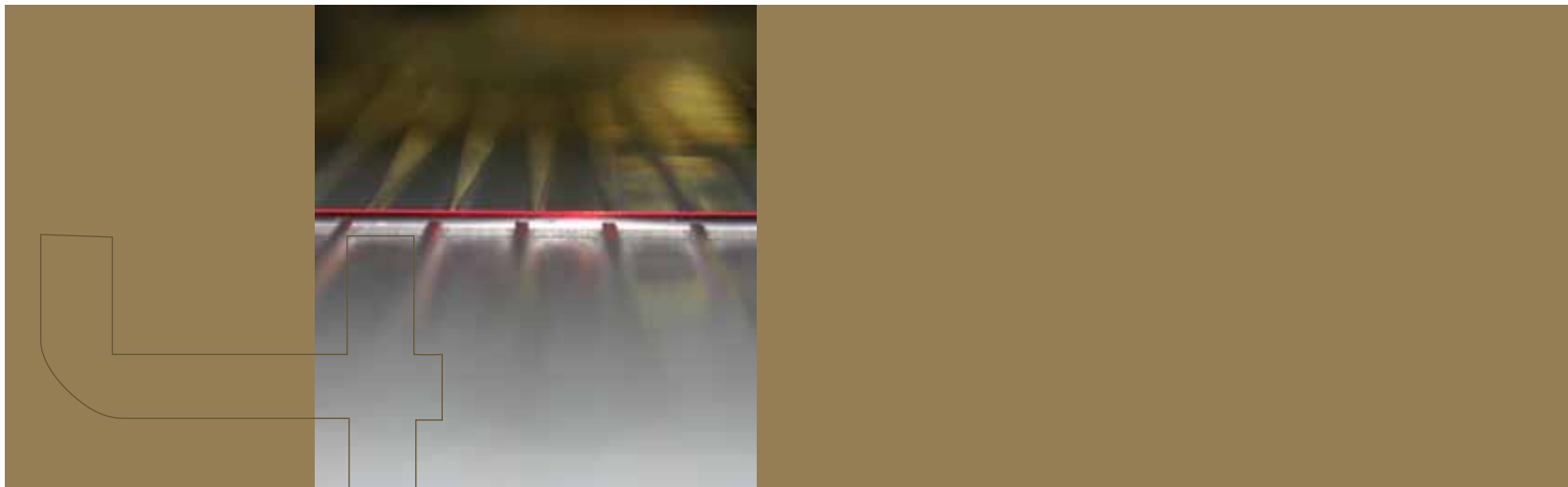


## Carnitech sales manager in Chile

Carnitech stationed a sales manager at Marel's new office in Chile to handle sales of the company's salmon equipment and solutions. Carnitech and CP Food Machinery, along with Marel, offer a range of equipment that covers the entire salmon processing procedure.



Agner Stabell,  
Carnitech Sales  
Manager Chile



### USDA Approval

Carnitech developed a new conveyor that fulfils all specifications needed to receive USDA approval. The new conveyor—type BT45—is designed for extra strength with a wide transport surface. Its sealed construction ensures a very high level of hygiene.



### Carnitech acquires part of the operation of Roscherwerke GmbH

Carnitech acquired a part of the operation of the German company Röscherwerke GmbH. The acquired part operates under the trademark Geba, and produces portioning machines for smoked salmon. The Geba operation was merged with CP-Foods, a Carnitech-owned company that produces similar products.



### Delivery of the most sophisticated shrimp factory in the world

Carnitech delivered advanced shrimp solutions to the National Prawn Company Ltd. in Saudi Arabia. The new shrimp processing facility has been acclaimed as the most sophisticated shrimp processing factory in the world. Carnitech developed the solutions in close cooperation with National Prawn.



### New project for Danish Crown

In 2004, Carnitech contracted to deliver a large processing plant to Danish Crown's department in Oldenburg, Germany in 2005. The order represents a value of approximately EUR 5 million. The factory will produce minced meat, sausages, pork chops, and bone-in pork chops, as well as other products.



### Nippon Meat Packers installs largest beef deboning system in Australia

In early December, Nippon Meat Packers Australia formally opened what has been hailed as the world's most sophisticated beef abattoir. Nippon's new \$46 million expansion of its abattoir was built over a new and efficient boning room, equipped with the latest deboning and traceability technology from Marel.





## PERFORMANCE IN 2004

We cultivate steady growth  
and innovation



# PERFORMANCE IN 2004

The year 2004 saw the best performance of the Marel Group to date. Investments and rationalisations carried out in the preceding years weighed heavily in the year's success, making up for the unfavourable external conditions the group had to contend with, especially on the foreign exchange market.

The financial accounting policies have been changed for 2004 in concordance with the IFRS, International Financial Reporting Standards. According to EU regulations, companies that are listed on stock exchanges in the European Economic Area are directed to follow the IFRS standards beginning in 2005. The Marel Group is in the process of completing the adjustment of its reporting methods to international standards, including the fine-tuning of internal processes and information systems. These changes are not fully reflected in the financial statements for 2004, but will be fully implemented in 2005. Comparative figures for 2003 have been changed in accordance to the numbers presented for 2004.

## Operating revenues and expenses in 2004

The Marel Group's operating revenues totalled € 112.3 million compared to € 106.1 million in the previous year. Operating revenues increased 6%. On a fixed rate the growth amounts to 9%.

Cost of goods sold was € 71.5 million and is unchanged from the previous year. The contribution margin has therefore increased from € 34.6 million in 2003 to € 40.8 million in 2004. Other operating expenses, including sales and marketing expenses, increased 4.9% becoming € 30.8 million in 2004. As a ratio of operating revenue the expenses have developed as follows:

	Year 2004	Year 2003
Sales and marketing costs	12,6%	12,8%
Product development costs	6,6%	6,8%
Management costs	8,2%	8,1%

The group will continue to focus on an increased contribution margin in manufacturing in 2005 with standardised products and rationalisation in purchasing.

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

	Year 2004	Year 2003
EBITDA in € thousands	14.092	10.129
EBITDA as a % of revenue	12,5%	9,5%
EBIT in € thousands	10.596	6.568
EBIT as a % of revenue	9,4%	6,2%

Financial expenses above financial income totalled € 1.9 million, compared to € 1.7 million in 2003. Active financial risk management is carried out by the Group, with the aim of minimising foreign-exchange risk and capital costs. The Group's debts increased € 5.0 million or 8.9% from the start of 2004 to year's end, mainly because of increased payables. On the other hand interest-bearing debts decreased € 1.6 million or 3.9%.

Income tax was € 2.0 million compared to € 1.1 million the year before. Property tax came to € 78 thousand. Total taxes for the Group were calculated at 24% of profits before taxes, the same as in the previous year. The Group operates in an environment with an income tax rate in the range of 18%-43%.

Profit for the Marel Group in 2004 totalled € 6.6 million compared to € 3.7 million the year before. External circumstances were in many ways unfavourable to the Group, in particular the exchange rate between the € and US dollar. On average 9% fewer € were exchanged for the dollar in 2004 compared to 2003. The US market is very important to the Marel Group and direct income from

the US market amounted to 30% of all income in 2004, while expenses in the US dollar decreased. To counter the decrease in the true value of the Group's income in US dollars, the Group achieved a successful decrease in expenses and increased rationalisation.

#### The Group's operations in € millions

	4. quarter	3. quarter	2. quarter	1. quarter	Total
Operating revenue	29,1	26,8	31,3	25,1	112,3
Operating profit (EBIT)	2,5	2,4	3,7	2,0	10,6
EBIT %	8,5%	9,0%	11,9%	7,9%	9,4%
Net financial expenses	(0,7)	(0,4)	(0,4)	(0,3)	(1,8)
Calculated taxes, etc.	(0,3)	(0,6)	(0,8)	(0,4)	(2,1)
Profit/(loss)	1,4	1,4	2,5	1,3	6,6
EBITDA	3,4	3,3	4,6	2,8	14,1



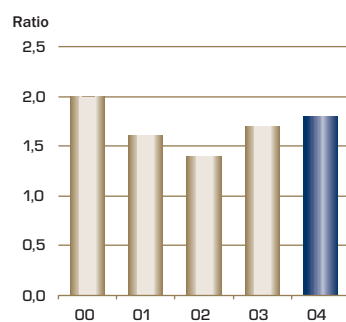
## Assets and liabilities at the end of 2004

Total assets at the end of 2004 were entered at € 90.6 million and have increased € 9.2 million or 11.3% from the previous year. The increase is mainly due to increased inventory and increased goodwill. Increase in inventory was € 5.6 million, mostly due to increased inventory of standard products that were in stock at the year's end. Increased inventory is mostly financed by increased payables. Goodwill increased € 4.1 million in excess of depreciation. The increase is largely due to the purchase of Póls and a part of the German company Röscherwerke GmbH. The purchased part operates under the brand Geba and produces slicing machines for smoked salmon.

Investments in fixed assets during 2004 totalled € 1.6 million. In comparison, such investment averaged € 1.9 million in 2003. The Group is well equipped to proceed with internal growth in the next 2-3 years without the need for significant increased investments.

Accounts receivable amounted to € 13.3 million at year's end, the same amount as at year's end 2003. Allocated credit was 43 days on average in 2004 compared with 48 days in 2004.

■ Current Ratio



Liabilities at the end of 2004 totalled € 61.2 million and increased by € 5.0 million or 8.9%. Long term liabilities increased by € 2.1 million and short term liabilities increased by € 2.9 million. Increased short term liabilities are due to increased payables.

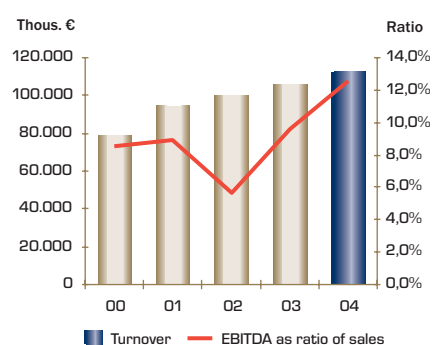
Owner's equity at the end of 2004 was € 29.4 million and increased by € 4.2 million during the year. Following is an itemisation of the change in € thousands:

## Owner's equity

	2004	2003
Profit	6,615	3,749
Own stock bought in excess of sold	(3,029)	(511)
Paid dividend	(407)	(280)
Purchase of subsidiaries	1,267	-
Other	(254)	(515)
(Decrease)/increase in own equity	4,192	2,443

The equity ratio at the end of 2004 was 32.4%, compared to 30.9% the previous year. The current ratio was 1.8, compared to 1.7 at the end of 2003. The ratio of "pure gearing" (interest-bearing liabilities minus cash and cash equivalents divided by owners equity) was 1.16 compared to 1.4 at the end of 2003.

■ Operating profit before depreciation, EBITDA as ratio of sales





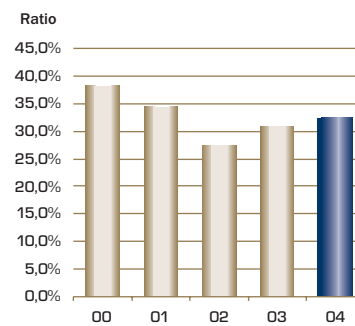
# The year 2004 was the best operational year in the history of the Marel Group



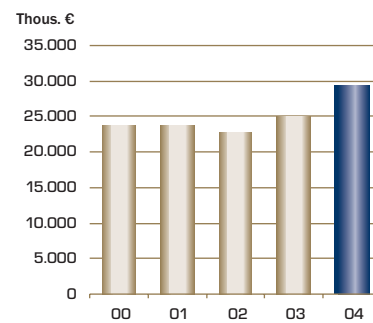
## Cash Flow

Net cash from operating activities was € 10.6 million in 2004, compared to € 4.7 million the year before. This is the largest amount of net cash for the Group to date. At the end of 2004, cash and cash equivalents were € 4.4 million compared to € 4.7 million the previous year.

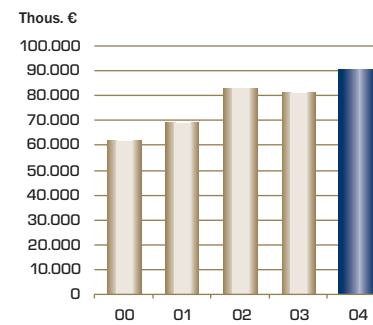
■ Equity ratio



■ Shareholders' equity



■ Total assets



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# OPERATIONAL ACTIVITIES



We nurture solid  
partnerships to bring  
lasting success

# SALES & MARKETING



The year 2004 saw the focus in Sales and Marketing directed at strengthening co-operation between the companies comprising the Marel Group, thereby increasing the synergy of global sales and marketing operations. Marel, Carnitech and our subsidiaries can jointly provide a full range of solutions that meet the needs of the fish, meat and poultry processing industry. A common marketing concept was created for the companies, linking the names of Marel, Carnitech, CP Food Machinery and Póls together as Partners in Processing on markets where the companies and their brands are well recognized.

The initial effort, carried out in the first quarter of 2004, resulted in a stronger co-operative approach to core markets with several larger projects, including Marel and Carnitech working together to create complete solutions for the customer.

## Sales efforts

The group focused on achieving increased productivity and economy in sales and marketing, while simultaneously expanding and strengthening the Group's market reach in 2004. The external environment was generally favourable in 2004, but the North Atlantic fishing industry—in particular shrimp processing—experienced some decline. The Avian influenza in Asia led to conservative investments and postponement of purchasing by the poultry industry on the continent. Other markets saw an increase in investments by food processing companies, creating an upbeat environment for Marel. The company did well on the US and European markets, meeting all the goals that were set for the year.

In 2004, Marel continued to provide solutions for fast-food and catering businesses, both to existing and new customers, as the trend for fixed-weight portions for the retail and catering market continue to experience growth.

The year was a good one for the Group's salmon solutions. Despite depressed salmon prices, the group's performance on this market was very successful and the market share increased. Marel hf, Carnitech and CP Food Machinery share a leading position on this market, and new market activities delivered one of the best years for the Group in the salmon industry.

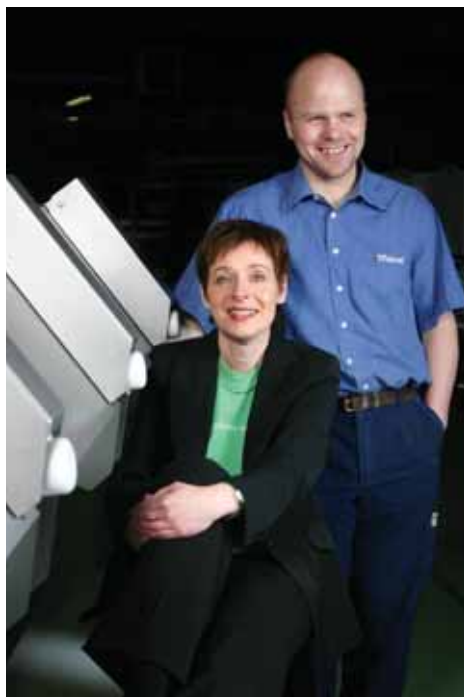
Meat trimming and deboning solutions from both Marel and Carnitech became one of the best sellers of 2004, resulting in new turn-



key projects for both companies, individually and jointly.

Carnitech's new further-processing business area launched in 2004 was well received by the meat industry. This operation focuses on the development, production, sale, and marketing of stand-alone machines and complete solutions for burger lines, mince lines, salami and sausage lines. Good reception by the industry has accelerated the growth of this sector, which has become one of the more promising new market entries for the group.

In March a new subsidiary, Marel Chile, was established in Chile focusing on Marel as a system and solution provider to the Chilean aquaculture sector, as well as the local fish, meat and poultry industries in Chile and neighbouring countries. A Carnitech sales agent also works on the Chilean market offering the company's solutions. Working with select agents in South America, the



Marel Group has established its presence as a manufacturer of high-end durable equipment to both small and large processors.

Carnitech sales activities increased in Seattle, USA, in particular for land-based fish processing plants. Carnitech Norge AS reduced the local sales force due to unfavourable conditions in the Norwegian fishing industry in 2004.

The Group's growth potential for 2005 lies in the meat and poultry industry, as well as in the introduction of new products into growing market sectors such as the processing of prepared food.

### Consultancy

Each sector of the food processing industry requires specialized, in-depth knowledge of its operations, trends and requirements. The Group's consultancy teams were reorganized and strengthened in 2004 to improve efficiency and service in each processing sector. The success of an operation of Marel's scope hinges not only on professional teamwork, but also on strong and lasting ties with our customers. Our consultants play a major part in maintaining those ties.

### Software

The Marel Group has established itself as one of the major providers of product traceability systems and complete production software to retrieve valuable processing information. Software sales increased in 2004, with traceability systems being one of the leading growth products. The company will maintain its focus on increased software sales in 2005, with continued emphasis on traceability solutions and quality assessment software.

# PRODUCT DEVELOPMENT



The Marel Group focuses on market-driven product development in cooperation with customers. We emphasize developing standardized, high-quality products and solutions that are designed for serviceability.

operating costs. Our strategy has kept us at the forefront of innovation and high-tech application release. New product turnover ratio between 2002 and 2004 averaged 39%. Distribution between food processing industries varies within the Group's companies, each focusing on its particular strengths.

## Our strategy has kept us at the forefront of innovation and high-tech application release

In line with our ongoing product development strategy, the Marel Group introduced 23 new products in 2004. Fourteen new Marel products were launched in 2004, while Pols unveiled two and Carnitech seven.

In an ever-developing market, the Marel Group has maintained a steady product development strategy that aims at offering the best products available in terms of functionality, reliability, safety, hygiene and

As a part of our ongoing patenting strategy, the Marel Group applied for 8 patents in 2004. The Group holds 14 patents and applies for 5 to 10 patents yearly on behalf of staff that have developed technical innovations, making it among the more active companies in this field. Patent protection is vital to the Marel Group, as its value and strong position

are to a large degree built on technological innovation and employee experience.

The number of employees working on product development for the Marel Group accounted for 9% of total employees in 2004. At Marel hf alone, 15% of the workforce was employed in product development.

Our strategy of robust, innovative product development was underscored by the hiring of new team members in 2004 at both Marel hf and Carnitech A/S. Product development at Póls is focused on specific solutions in grading and batching, with specialists working together with other Group employees. Our team of creative professionals systematically develops new ideas for product development, working closely with processors and others to bring innovative, high-quality products to the market.

The Marel Group also operates an advanced Research and Technology Group. The primary aim of the group is to increase knowledge in new technologies that the Marel Group is likely to utilise—both long- and short-term—thereby further strengthening the overall technological base.

The Marel Group maintains connections with the scientific community by welcoming research guests, and providing scientists with working facilities for special projects relevant to the company's field. This research work is an addition to product development, which continues to play a key role in the Group's operations.



Compact Grader XL



Sensor X Bone Detection



Póls FP 3000 Speed Batcher



Carnitech Meat Mixer

# MANUFACTURING



Durability, quality and reliability characterize products of the Marel Group. The Group's manufacturing processes and products emphasize top-quality workmanship. The processes ensure that the functionality of all delivered products meet the customer's specifications, and the company's meticulous quality standards.

The year 2004 saw an ongoing emphasis on increased productivity. Product standardization and improved production facilities enabled production processes to reach the goals set for 2004. The acquisition of Póls in March was beneficial for the Marel hf production process. A strong Póls production unit continues to be operated in Isafjordur, Iceland, which manufactures Póls products as well as standardised Marel products.

Carnitech A/S focused on reorganising its manufacturing processes in 2004 in order to strengthen core competences, and increase productivity. Manufacturing was divided into competence groups with the aim of better utilising the accumulated knowledge within the process, resulting in a more streamlined, effective operation.

Standardisation, along with continuous improvement in production, resulted in increased productivity in 2004, a trend that began in 2003. Productivity as production value per person-hour increased from 2003 to 2004. Increased management effort in production has resulted in a significant reduction in overtime hours resulting in lower production cost.

Production is organized in a flexible manner in order to meet fluctuations in required



## We emphasize top-quality workmanship in our manufacturing processes and products

capacity and product variety. Increased flexibility in production was one of the main goals in 2004, implemented in part by increased subcontracting. Cooperation with low-cost foreign subcontractors for components was successful, and the company will continue to strengthen the business relationship with key suppliers. Emphasis will remain on decreasing material costs.

Overseas production has to date been limited to components, but the company continues to look for the most cost effective methods, including sub-contracting new areas of production. Additional components will be sub-contracted to low-cost subcontractors, and made with more cost effective methods such as metal and plastic casting.

The Marel Group aims to stay in the forefront in production, benchmarking with the best worldwide. The Group's objective is always to use the most efficient methods in production. In 2005, the emphasis will be on applying Lean Manufacturing techniques to increase awareness when creating customer value in production, eliminating waste and making general improvements.



Carnitech Salmon Filleting Machine CT2630



TSM Template Slicing Machine



IPM X400 Intelligent Portioning Machine



Cp Foods Machinery Silk Cut



# CORPORATE SOCIAL RESPONSIBILITY

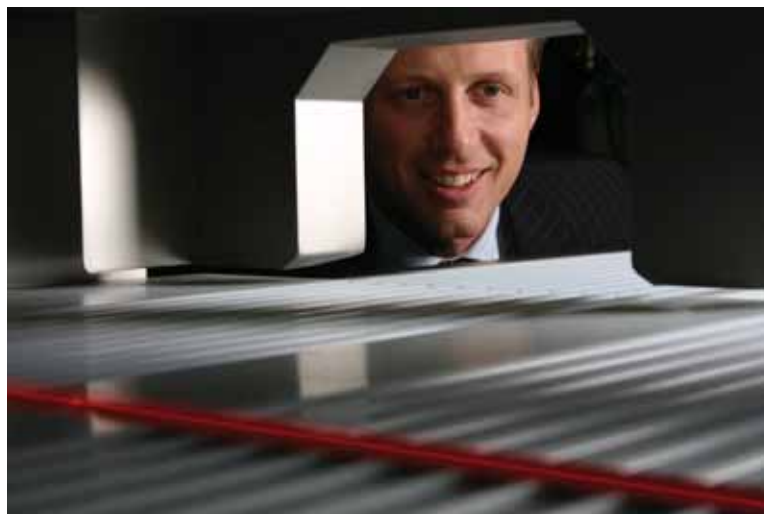
Responsible business conduct and consistent effort in community involvement characterizes the Marel Group's corporate social responsibility strategy. The Marel Group strategically implements responsible corporate behaviour, and pursues community involvement objectives that meet the expectations of our customers as well as communities. Our management and employees demonstrate support, commitment and participation in identifying and monitoring issues important to the Group's operation and reputation.

We promote the involvement of all our subsidiaries and other operations in implementing the Group's strategy. Social responsibility actions and projects differ from country to country, depending on local conditions. Our subsidiaries participate in local community issues, as well as carry out their role in the Group's overall strategy. As the Marel Group develops and implements its strategy based on mutual goals and concerns of the company and the community, the group's main focus is on supporting innovation, science and empirical science education on all educational levels. Our strategy is based on partnership, and our

employees actively participate in diverse cooperative programs on various levels.

In 2004, the Group established a 3-year plan for the support of science education on all educational levels. Both personnel and financial resources have been allocated to the project. With our contribution, both financial and hands-on, we strive to support and enrich innovation, science and mathematical education, as well as increase the awareness of the value of a strong scientific education in the communities where we operate.

The Marel Group's focus over the next 3 years will be to support youth innovation and science contests and university engineering contests as a main sponsor, as well as contributing to the development of a children's science museum and other science programs with active participation and financial support. We work closely with local municipalities to support science teaching and coordination, while maintaining strong ties with universities and research bodies to support innovation and excellence in science exploration and research.



# HUMAN RESOURCES



The human resource strategy of the Marel Group integrates the spirit of an innovative high-tech organisation that strives to nurture competent, professional and creative employees, with an ambitious and positive work environment. We follow specific objectives each year that have been formulated incorporating employee input on strategy and benchmarking. Our framework is solid but flexible, and we encourage creativity and individuality coupled with responsibility. Creativity is integral to success in a highly competitive business, and while our goals are clear, thinking outside the box to attain them is encouraged.

Stable growth characterised employment activities in 2004. The total number of employees increased 8%, from 773 in 2003 to 836 in 2004. The Marel Group benefits from low employee turnover which was 4% in 2004. This number is in line with the average turnover of the last few years.

The Marel Group promotes training and further education opportunities, work-life balance, equality, team-work, trust and responsibility in our company policy. Effective communication and feedback are important, and we strategically reward our employees for their efforts.

Focus on training and continuing education was augmented with the formal establishment

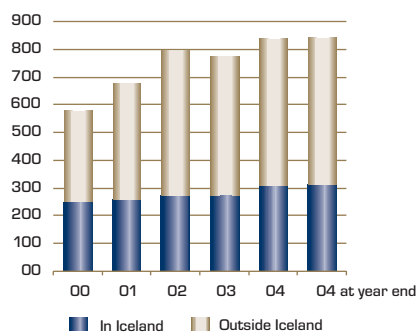
of the Marel School in early 2004. The role of the school is to further train and educate Marel staff and agents in sales, service and other areas including management coaching and training. Courses and seminars are designed to cover all solutions, as well as specific areas of expertise within each industry and application.

The Marel Group is dedicated to providing a safe, comfortable work environment. We thoroughly monitor all safety and health aspects of the physical work environment.

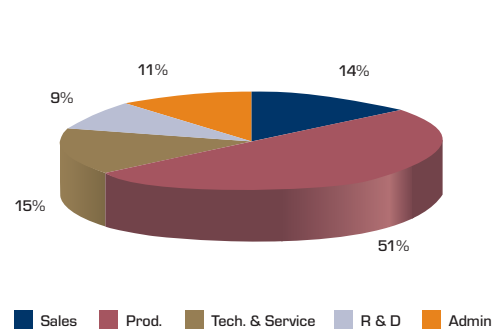
Good ergonomics are vital to a productive work environment. A three-year contract was signed in 2004 with a health and ergonomics consultancy service to provide work place evaluations, consultancy, and seminars.

In our field of development and innovation, change is a keyword and our outstanding workforce is flexible and responsive. Results from the employee poll carried out in 2004 show that the image is strong; employees know the group's vision, understand its structure and are very interested in taking on demanding assignments. Our people feel they have the opportunity to work independently, and that they consistently receive feedback and recognition for a job well done. The emphasis on training and continuing education is highly valued, and people are proud to be working for the Group.

■ Average number of employees





■ Total distribution of Marel Group employees



# MAREL GROUP ADMINISTRATION

## Marel hf

	<p><b>Ásgeir Ásgeirsson</b> Director of Product Development.</p> <p><i>Education</i> Electronic Engineering M.Sc., 1993, University of Washington. Computer Science B.Sc., 1990, University of Iceland. Electronic Engineer B.Sc., 1986, University of Iceland.</p>	<p>Ásgeirsson started working for Marel hf in 1986 and worked on product development from 1993-1996. From 1996 until 2001, Ásgeirsson held the position of IT director at Marel and became Director of Product Development in 2001. In 2004, Ásgeirsson also took on the position of Managing Director of subsidiary Póls in Iceland.</p>
	<p><b>Jón Þór Ólafsson</b> Director of Product Development.</p> <p><i>Education</i> Electronic Engineering, B.Sc., 1978, University of Iceland. Science Degree, 1973, Technical University of Iceland.</p>	<p>Ólafsson worked as a specialist at the Science Institute of the University of Iceland from 1978 to 1983 where he began exploring the possibilities of developing and manufacturing scales for the effective control of production in fish processing plants. This work became the foundation of Marel, which was established in 1983. Ólafsson has been with the company from the start and he became a Director of Product Development in 1987.</p>
	<p><b>Kristján Þorsteinsson</b> Director of Finance.</p> <p><i>Education</i> Business Graduate, B.Sc., 1976, University of Iceland.</p>	<p>Þorsteinsson was a Director in the finance division of Eimskip Shipping Company from 1978 until 1999. In 1996 he became managing director of a shipping agency in England, owned by Eimskip. He joined Marel in 1999 as Director of Finance.</p>
	<p><b>Lárus Ásgeirsson</b> Director of Sales and Marketing.</p> <p><i>Education</i> Mechanical Engineering, M.Sc., 1982, Oklahoma State University. Mechanical Engineering, B.Sc., 1981, University of Iceland.</p>	<p>Ásgeirsson was employed as a research engineer for the Icelandic Fisheries Laboratories in Iceland between 1983 and 1986. He became the Operation Manager of Lýsi Ltd in 1986 and the General Manager of the Icepro Group in the USA from 1987 to 1991. In 1991, Ásgeirsson joined Marel as Director of Sales and Marketing. He is also the deputy for the Managing Director of Marel.</p>
	<p><b>Magnús Þór Ásmundsson</b> Director of Manufacturing.</p> <p><i>Education</i> Electrical Engineering, M.Sc., 1990, Technical University of Denmark. Electrical Engineering, B.Sc., 1987, University of Iceland.</p>	<p>Ásmundsson joined the product development process at Marel hf in 1990, and became Human Resources manager in 1998. In December 1999, Ásmundsson took over as Director of Manufacturing.</p>



### Hörður Arnarson, MD

#### Education

Electronic Engineering, Ph.D., 1990, Technical University of Denmark.  
Electronic Engineering, B.Sc., 1985, University of Iceland.

Arnarson joined Marel 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 Managing Director of Marel and the Marel Group. Arnarson is a member of the board of directors of several companies and sits on the board of the Association of Icelandic Industries, Venture Capital Fund, and Advisory Committee for the Icelandic Flight Aviation System. Arnarson is also an expert reviewer for the EEC within the ESPRIT framework program doing technical and financial evaluations of large international research projects.



### Pétur Guðjónsson

Director of Sales and Marketing.

#### Education

Electrical Engineering, B.Sc., 1982, University of Iceland.

Guðjónsson worked as an engineer at the Science Institute of the University of Iceland from 1982 to 1984, as well as teaching at the Technical University from 1982-1985. He joined Marel in 1984 as an engineer, among the first group of employees of the company. In 1985, Guðjónsson became the Director of Marel Canada and operated the subsidiary until 1991 when he became Director of Sales and Marketing at the company's headquarters in Iceland.



### Sigurpáll Jónsson

Director of Customer Service.

#### Education

Electrical Engineering Graduate studies, 1979, ETH in Zurich.  
Electrical Engineer, B.Sc., 1978, University of Iceland.

Before joining Marel in 1985, Jónsson worked as an engineer for ISAL, the Icelandic Aluminium Company, for five years. From 1989 to 1996, he directed various departments within Marel. He became director of Marel USA when the subsidiary was founded in 1996. Jónsson operated Marel USA until 2000, when he returned to headquarters and took over the position of Director of Customer Service. Since 2003, Jónsson has also been Director of Purchasing.

## Carnitech A/S



### Thorkild Christensen

Managing Director, Carnitech A/S.

#### Education

Locksmith, 1966, Østre Brønderslev Centralskole, Denmark.

Christensen was one of the founders of Carnitech A/S in 1981. Before that, Christensen held jobs as a locksmith and supervisor in different companies. In 1983 he became the managing director of Carnitech A/S.



### Aksel Andersen

Technical Director, Carnitech A/S.

#### Education

Mechanic, 1965, Tylstryk Centralskole, Denmark.

Andersen was one of the founders of Carnitech A/S in 1981. Before that, Andersen worked as a mechanic, locksmith, and supervisor in different companies. After only a few years in Carnitech A/S, Andersen became responsible for the production as well as the drawing office, and has operated the two as Technical Director since 1983.



### Tage Thesbjerg

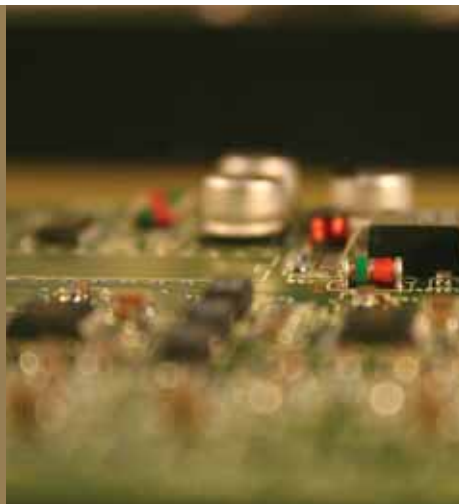
Financial Director, Carnitech A/S.

#### Education

Auditor, 1984, Ringkjøbing Handelsskole, Denmark.

Thesbjerg joined Carnitech A/S in 1991 and became its financial director in 1997. Before that, Thesbjerg spent 5 years at the Danish auditing company Mortensen & Beirholm, followed by 2 years at Sabroe Refrigeration's subsidiary in Gothenburg, Sweden as its financial manager.

# STOCKHOLDERS & STOCKS



## Shares and shareholders

Marel's shares are listed on the Icelandic Stock Exchange (ICEX) and are included in the selected share index ICEX-15. The share price rose from ISK 27.30 at year's end 2003 to ISK 49.20 at year's end 2004, an increase of 80%. During the same period the ICEX-15 index increased by 60%. The year's highest end-of-day share price was ISK 58.40 in November, and the lowest end-of-day share price was ISK 27.00 in January.

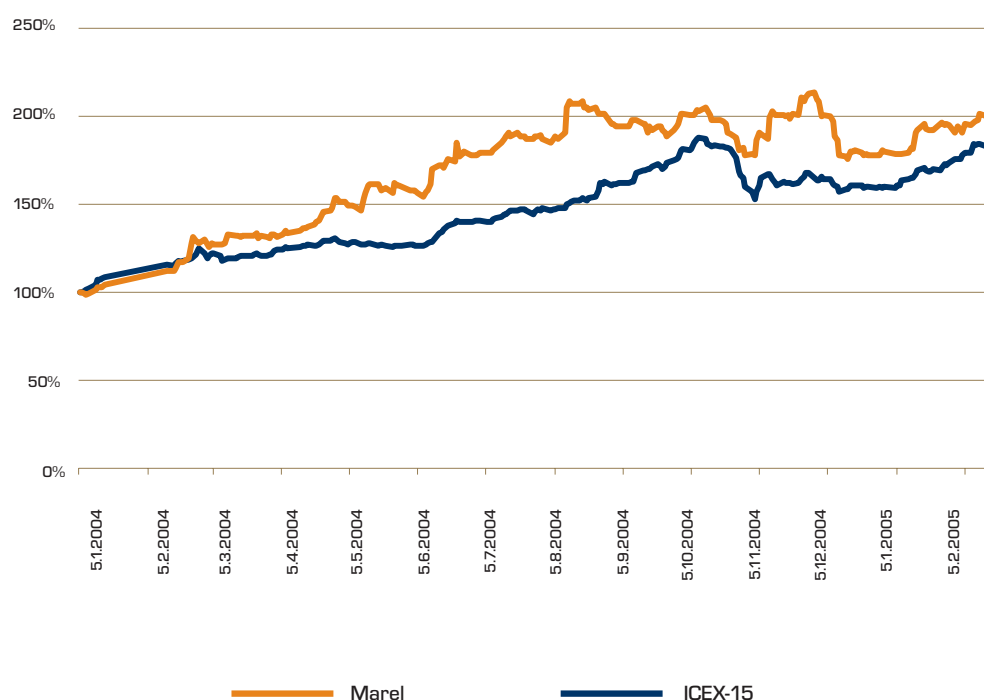
The total market value of Marel shares traded on ICEX in 2004 was ISK 7,603,575,973 and the turnover rate was 69%. The average end-of-day spread was 0.96%. The market value of the company at year-end 2004 was

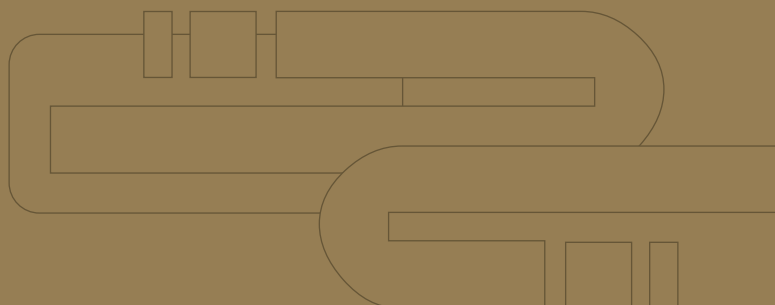
ISK 11.8 billion. The number of shares is 240.064.000. At the end of 2004, 1354 shareholders had shares in Marel hf, down from 1630 shareholders at year-end 2003.

There were considerable changes in the shareholder group in 2004. Most notable is that Eyrir fjárfestingarfélag ehf acquired 12.84% of the company. The largest shareholder is Burðarás hf with a 33.42% share of the company.

Marel purchased own shares in excess of sold shares in 2004 at a nominal value of IKR 5,601 thousand. As of February 18th, 2005, Marel's own shares had a nominal value of IKR 6,641 thousand.

Marel Share Price and ICEX-15 Index



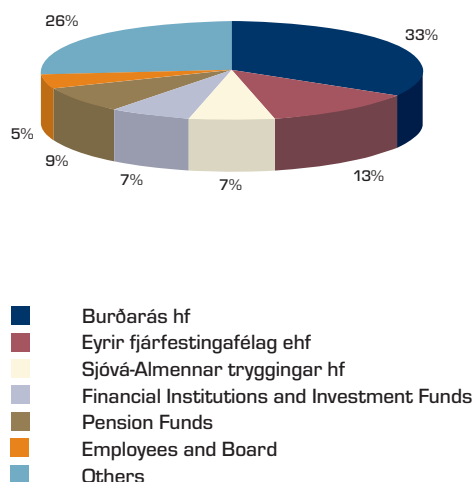


## 10 largest shareholders

21.02.2005

SHAREHOLDER	SHARES	%
1 Burðarás hf	80.226.038,00	33,42
2 Eyrir fjárfestingafélag ehf	30.820.624,00	12,84
3 Sjóvá-Almennar tryggingar hf	17.888.522,00	7,45
4 Lífeyrissjóðir Bankastræti 7	10.748.194,00	4,48
5 Landsbanki Íslands hf	8.411.986,00	3,50
6 Marel hf	6.681.516,00	2,78
7 Sameinaði lífeyrissjóðurinn	5.280.624,00	2,20
8 Helga Sigurðardóttir	4.750.000,00	1,98
9 Ingunn Sigurðardóttir	4.750.000,00	1,98
10 Súsanna Sigurðardóttir	4.750.000,00	1,98
Others	65.756.496,00	27,39
Total	240.064.000,00	100,00

Division of Shares



## CORPORATE GOVERNANCE

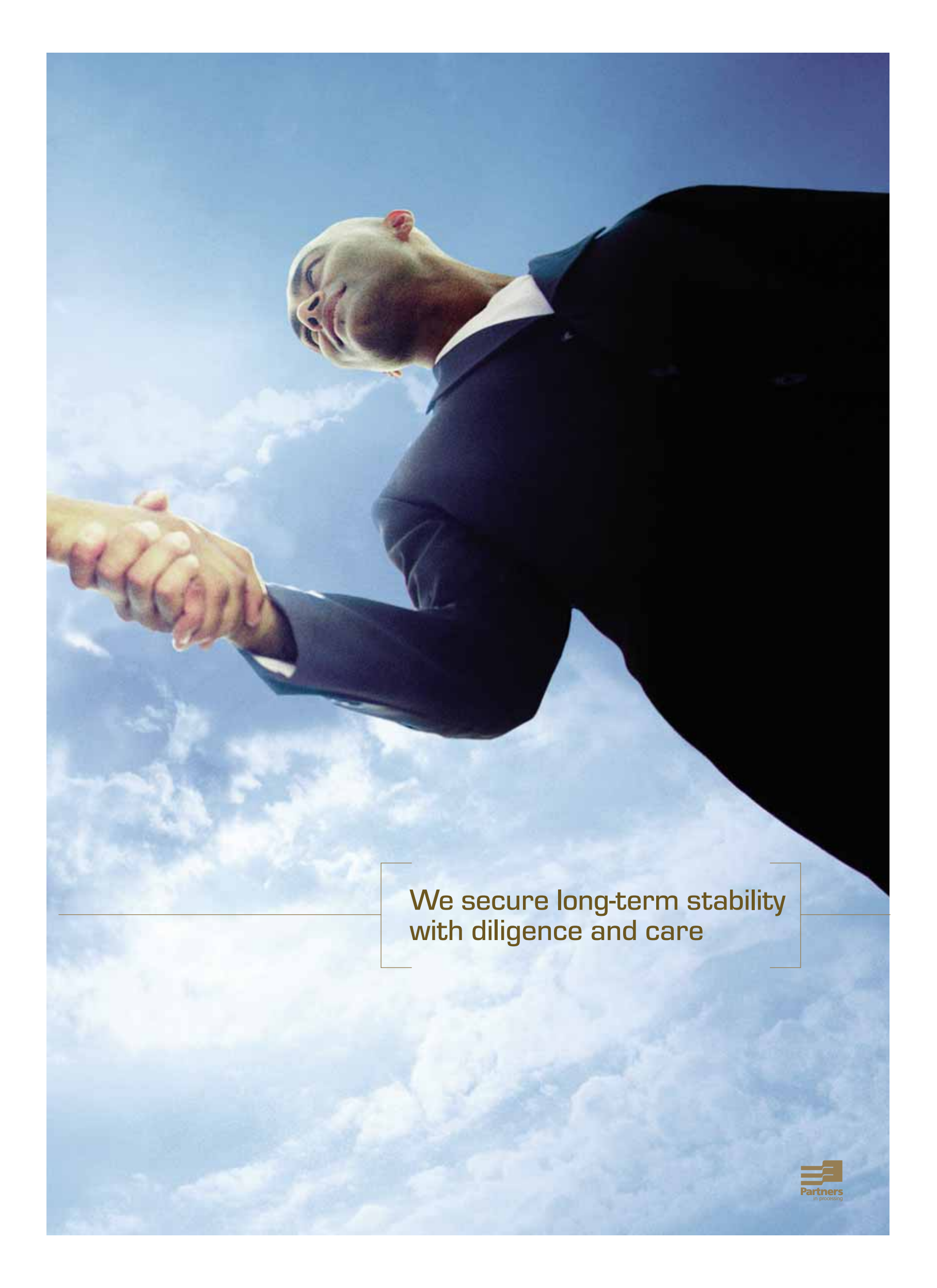
Marel hf Board of Directors complies in its procedures with the Company's Articles of Association. It has also formalized Internal Rules of Procedures which are closely followed. These rules and the Board's activities comply with the guidelines set forward in Corporate Governance presented by the Icelandic Stock Exchange, The Icelandic Chamber of Commerce and SA-Confederation of Icelandic Employers. There

are two issues in the Corporate Governance which have not been followed hitherto. An audit committee has not been especially set up within the Board. The Board itself deals with all related issues that would fall within the Audit Committee's responsibilities. A Compensation Committee is not present within the Board. The compensation of the Managing Director is negotiated by the Chairman of the Board of Directors.



**FINANCIAL STATEMENTS 2004**



A low-angle, upward-looking photograph of a man in a dark suit shaking hands. The man is positioned on the right side of the frame, with his head tilted back and eyes closed, suggesting a moment of triumph or agreement. The background is a vast, bright blue sky filled with soft, white clouds. The lighting is natural and bright, creating a positive and aspirational atmosphere. The handshake is the central focus, symbolizing partnership and stability.

We secure long-term stability  
with diligence and care

# THE BOARD & MANAGING DIRECTOR'S REPORT

Total sales of the Group according to the income statement were EUR 112.3 million in the year compared to EUR 106 million in the year 2003. Net profit of the Group amounted to EUR 6.6 million compared to EUR 3.7 million in the preceding year. Assets of the Group amounted to EUR 90.6 million according to the balance sheet and shareholders' equity amounted to EUR 29.4 million at year-end.

During the year an average of 836 employees were employed by the Group, with 287 employed by the parent company. Total wages and salaries for the group amounted to EUR 42.7 million.

The number of shareholders in Marel hf at year's end 2004 was 1,354 a decrease of 275 during the year. Two shareholders had a holding interest of more than 10% in the company, Burdarás hf, with 33.42% and Eyrir fjárfestingafélag ehf, with 12.84%.

The Board of Directors suggests that a dividend of 20% of nominal value to be paid in the year 2005, but refers to the Financial Statements regarding appropriation of the year's net profit and changes in shareholders' equity.

Marel hf Board of Directors complies in its procedures with the Company's Articles of Association. It has also formalized Internal Rules of Procedures closely followed. These rules and the Board's activities comply with the guidelines set forward in Corporate Governance presented by the Icelandic Stock Exchange, the Icelandic Chamber of Commerce and SA-Confederation of Icelandic Employers. There are two issues in the Corporate Governance which have not been followed hitherto. An audit committee has not been especially set up within the Board. The Board itself deals with all related issues that would fall within the Audit Committee responsibilities. A Compensation Committee is not present within the Board. The compensation of the Managing Director is negotiated by the Chairman of the Board of Directors.

The Board of Directors and Managing Director of Marel hf hereby ratify the Financial Statements for 2004 with their signatures.

Garðabæ, 15 February 2005

Porkell Sigurlaugsson  
Arnar Þór Másson  
Bjarni Benediktsson  
Friðrik Jóhannsson  
Þórólfur Árnason

## **Managing Director**

Hörður Arnarson





Þórunn Þorvaldsson

Guðmundur Guðmundsson

Ólafur Ólafsson

Ólafur Ólafsson

Ólafur Ólafsson

# AUDITOR'S REPORT

## To the Board of Directors and Shareholders of Marel hf

We have audited the Consolidated Financial Statements of Marel hf for the year 2004. The Consolidated Financial Statements consist of the Board of Director's report, income statement, balance sheet as of December 31, statement of cash flow, statement of changes in shareholders' equity, summary of accounting policies and notes 1 - 24. These Financial Statements are the responsibility of the company's management according to law and regulations. Our responsibility is to express an opinion on these Financial Statements based on our audit. We have not audited the foreign subsidiaries' Financial Statements, but they have been audited and signed by unqualified reports by other certified public accountants.

We conducted our audit in accordance with international auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Financial Statements are free of material misstatement. An audit includes, based on our assessment of materiality and risk, an analytical review and an examination, on a test basis, of evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

It is our opinion, based on our own audit and the auditors' reports of the foreign subsidiaries' Financial Statements, that the Financial Statements present fairly, the financial position of the company and its subsidiaries as of December 31, 2004 and the results of its operations and its cash flows for the year then ended, in accordance with law and generally accepted accounting principles in Iceland.

Garðabæ, 15 February 2005

## PricewaterhouseCoopers hf

Þórir Ólafsson  
Ólafur Þór Jóhannesson



## Financial Ratios

	2004	2003	2002	2001	2000
<b>Operating results</b>					
Sales .....	112.301	106.104	100.654	94.116	78.602
Gross profit .....	40.815	34.617	-	-	-
Profit before depreciation (EBITDA) .....	14.092	10.129	5.712	8.432	6.675
Profit from operations (EBIT) .....	10.596	6.568	2.278	5.979	4.528
Net profit (loss) .....	6.615	3.749	50	2.106	(117)
<b>Cash flow statement</b>					
Net cash from operating activities .....	10.558	4.724	1.004	1.098	3.558
Investing activities .....	(3.852)	(1.955)	(17.959)	(12.585)	(13.321)
Financing activities .....	(7.263)	(1.153)	16.906	4.238	16.841
<b>Financial position</b>					
Total assets .....	90.551	81.334	82.602	68.829	62.050
Working capital .....	20.909	17.700	12.740	14.978	22.458
Equity .....	29.359	25.167	22.724	23.654	23.722
<b>Various figures in proportion to sales</b>					
Gross profit .....	36,3%	32,6%			
Selling and marketing expenses .....	12,6%	12,8%	-	-	-
Development expenses .....	6,6%	6,8%	-	-	-
Administrative expenses .....	8,2%	8,1%	-	-	-
Wages and benefits .....	41,9%	41,0%	43,5%	40,7%	40,7%
Profit before depreciation (EBITDA) .....	12,5%	9,5%	5,7%	9,0%	8,5%
Profit from operations (EBIT) .....	9,4%	6,2%	2,3%	6,4%	5,8%
Depreciation/amortization .....	3,1%	3,4%	3,4%	2,6%	2,6%
Net profit (loss) .....	5,9%	3,5%	0,0%	2,2%	-0,1%
<b>Other key ratios</b>					
Current ratio .....	1,8	1,7	1,4	1,6	2,0
Quick ratio .....	0,7	0,8	0,7	0,8	1,3
Equity ratio .....	32,4%	30,9%	27,5%	34,4%	38,2%
Return on owners' equity .....	26,3%	16,5%	0,2%	9,4%	-1,0%

Amounts 2000 - 2001 are translated from Icelandic kronur into the currency of EUR based on average exchange rate of each year for the operating items but the year-end rate for the balance sheet items.

## Consolidated Income Statement for the year 2004

	Notes	2004	2003	2004 Q4	2003 Q4
Sales .....		112.301	106.104	29.120	31.606
Cost of sales .....		<u>(71.486)</u>	<u>(71.487)</u>	<u>(18.570)</u>	<u>(22.549)</u>
<b>Gross profit</b>		40.815	34.617	10.550	9.057
Other operating income .....		598	1.325	180	88
Selling and marketing expenses .....		(14.195)	(13.563)	(3.741)	(3.473)
Development expenses .....		(7.457)	(7.193)	(2.334)	(1.908)
Administrative expenses .....		<u>(9.165)</u>	<u>(8.618)</u>	<u>(2.181)</u>	<u>(2.042)</u>
<b>Profit from operations</b>		10.596	6.568	2.474	1.722
Finance costs - net .....	2	<u>(1.879)</u>	<u>(1.658)</u>	<u>(730)</u>	<u>(390)</u>
<b>Profit before tax</b>		8.717	4.910	1.744	1.332
Income tax expense .....	4	(2.024)	(1.110)	(316)	(21)
Net worth tax expense .....		<u>(78)</u>	<u>(51)</u>	<u>(25)</u>	<u>(15)</u>
<b>Net profit</b>		<u>6.615</u>	<u>3.749</u>	<u>1.403</u>	<u>1.296</u>
<b>Earnings per share</b>					
Basic earnings per share (EUR cent) .....	5	2,82	1,59	0,60	0,55
Diluted earnings per share (EUR cent) .....	5	2,76	1,56	0,58	0,54

## Consolidated Balance Sheet as of December 31, 2004

Assets	Notes	2004	2003
<b>Non-current assets</b>			
Intangible assets .....	7	8.556	4.482
Property, plant and equipment .....	6	31.792	32.812
Available-for-sale investments .....	19	753	753
Receivables .....		92	0
Deferred tax assets .....	13	1.020	1.035
		<u>42.213</u>	<u>39.082</u>
<b>Current assets</b>			
Inventories .....	8	22.269	16.693
Ordered work in process .....	9	5.859	6.064
Receivables and prepayments .....	10	15.844	14.768
Cash and cash equivalents .....		4.366	4.727
		<u>48.338</u>	<u>42.252</u>
<b>Total assets</b>		<u><u>90.551</u></u>	<u><u>81.334</u></u>
<b>Shareholders' equity</b>			
Ordinary shares .....		2.637	2.637
Share premium .....		9.059	10.794
Treasury shares .....		(75)	(48)
Fair value and translation reserves .....	17	(1.450)	(1.196)
Retained earnings .....		19.188	12.980
Total shareholders' equity .....		<u>29.359</u>	<u>25.167</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings .....	12	31.442	30.889
Deferred tax liabilities .....	13	2.321	726
		<u>33.763</u>	<u>31.615</u>
<b>Current liabilities</b>			
Trade and other payables .....	11	19.450	14.309
Current tax liabilities .....		328	611
Borrowings .....	12	7.025	9.141
Provisions .....	14	626	491
		<u>27.429</u>	<u>24.552</u>
<b>Total liabilities</b>		61.192	56.167
<b>Total equity and liabilities</b>		<u><u>90.551</u></u>	<u><u>81.334</u></u>

## Consolidated Statement of Changes in Shareholders' Equity

	Notes	Share capital	Share premium	Treasury shares	Fair value and translation reserves	Retained earnings	Total
<b>Balance at 1 January 2003</b>		2.601	11.293	0	(681)	9.511	22.724
Currency translation differences .....					(515)		(515)
Net gain/(loss) not recognised in net profit .....		0	0	0	(515)	0	(515)
Purchases of treasury shares, net .....			(499)	(12)			(511)
Dividend relating to 2002 .....						(280)	(280)
Net profit .....						3.749	3.749
Transfer of treasury shares .....		36		(36)			0
		<u>36</u>	<u>(499)</u>	<u>(48)</u>	<u>(515)</u>	<u>3.469</u>	<u>2.443</u>
<b>Balance at 31 December 2003/ 1 January 2004</b>		2.637	10.794	(48)	(1.196)	12.980	25.167
Cash flow hedges:							
– net fair value gain/(loss), net of tax .....	17				(20)		(20)
Currency translation differences .....	17				(234)		(234)
Net gain/(loss) not recognised in net profit .....		0	0	0	(254)	0	(254)
Purchases of treasury shares, net .....			(2.967)	(62)			(3.029)
Business combination .....	20		1.232	35			1.267
Dividend relating to 2003 .....						(407)	(407)
Net profit .....		0	(1.735)	(27)	(254)	6.615	6.615
		<u>0</u>	<u>(1.735)</u>	<u>(27)</u>	<u>(254)</u>	<u>6.208</u>	<u>4.192</u>
<b>Balance at 31 December 2004</b>		<u>2.637</u>	<u>9.059</u>	<u>(75)</u>	<u>(1.450)</u>	<u>19.188</u>	<u>29.359</u>



## Consolidated Cash Flow Statement for the year 2004

	Notes	2004	2003
<b>Cash flows from operating activities</b>			
Cash generated from operations .....	18	13.152	7.041
Interest paid .....		(1.548)	(1.931)
Tax paid .....		(1.046)	(386)
		<u>10.558</u>	<u>4.724</u>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary, net of cash acquired .....		(32)	0
Purchase of property, plant and equipment .....	6	(1.642)	(1.889)
Purchase of intangibles .....		(2.307)	(403)
Proceeds from sale of PPE .....		117	337
Proceeds from sale of shares .....		12	0
		<u>(3.852)</u>	<u>(1.955)</u>
<b>Cash flows from financing activities</b>			
Proceeds from (purchase of) treasury shares, net .....		(3.029)	(510)
Proceeds from borrowings .....		2.451	14.424
Repayments of borrowings .....		(6.004)	(14.155)
Finance lease principal payments .....		(274)	(632)
Dividends paid to group shareholders .....		(407)	(280)
		<u>(7.263)</u>	<u>(1.153)</u>
Effects of exchange rate changes .....		196	220
<b>Net increase (decrease) in cash and cash equivalents</b>		(361)	1.836
Cash and cash equivalents at beginning of year .....		4.727	2.891
<b>Cash and cash equivalents at end of year</b>		<u><u>4.366</u></u>	<u><u>4.727</u></u>

## Accounting Policies

The European Commission has decreed that from January 1st 2005 all listed companies in the European Union must prepare their group accounts using International Financial Reporting Standards (IFRS). Marel has started to adapt its accounts to IFRS, among other things by changing their information systems, internal management processes etc. This is reflected in the presentation of the accounts for year 2004. Comparative figures have been adjusted to conform with changes in presentation in the current year.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

### Basis of preparation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

### Group accounting

#### Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See below for the accounting policy on goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

### Foreign currency translation

#### Measurement 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 measurement currency"). The consolidated financial statements are presented in euros (EUR), which is the measurement currency of the parent.

#### Transactions and balances

Foreign currency transactions are translated into the measurement 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 of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

## Accounting Policies

### Group companies

Income statements and cash flows of foreign entities, which do not have integrated operation with that of the parent company, are translated into the Group's reporting currency at average exchange rates for the period and their balance sheets are translated at the exchange rates ruling on 31 December. Exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Income statements and cash flows of foreign entities, which have integrated operation with that of the parent company, are translated into the Group's reporting currency at average exchange rates for the period, except depreciation and amortization which is translated at historical exchange rates, and their balance sheets are translated at the exchange rates ruling on 31 December, except property, plant and equipment and intangible assets which is translated at historical exchange rates. Exchange differences arising from the translation are taken to income statement.

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.

### Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful lives as follows:

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Interest costs on borrowings to finance the construction of property, plant and equipment are expensed.

### 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 assets of the acquired subsidiary, or operation, at the date of acquisition. 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 amortised using the straight-line method over its estimated useful life. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 20 years.

At each balance sheet date the Group assesses whether there is any indication of impairment. If such indications exist an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

## Accounting Policies

### Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost 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 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

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 3 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 3 years. Intangible assets are not revalued.

### Impairment of long lived assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses 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 carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

### Investments

The Group classified its investments in debt and equity securities into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate, are classified as available-for-sale; and are included in non-current assets.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective yield method. Unrealised gain and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. The fair value of investments is based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses.

## Accounting Policies

### 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.

### 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.

### Ordered work in process

Work in process is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions or their ultimate purpose or use.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable. Contract costs are recognised when incurred.

When the outcome of a work in process can be estimated reliably, contract revenue and contract costs are recognised by using the stage of completion method. The stage of completion is measured by reference to the relationship contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Costs incurred in the year in connection with future activity on a contract are excluded and shown as work in process.

### Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. 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 carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

## Accounting Policies

### Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

### Share capital

Ordinary shares are classified as equity.

Where the Company or its subsidiaries purchases the Company's equity share capital, the consideration paid including any attributable incremental external costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

### Borrowings

Borrowings are recognised initially at the redemption value.

### Deferred income taxes

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 financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

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, associates and joint ventures, 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.

### Employee benefits

#### Equity compensation benefits

Share options were granted to the employees in 2001. Options were granted at the market price of the shares on the date of the grant and are exercisable at that price. Options are exercisable beginning one year from the date of grant and have a contractual option term of six years. In accordance with IFRS 2, EUR nil is recognised as an expense in the income statement.

#### Profit sharing and bonus plans

Under some circumstances, a liability for key employee benefits in the form of profit sharing and bonus plans is recognised in other provisions when there is no realistic alternative but to settle the liability and at least the following condition is met:

- there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

## **Accounting Policies**

### **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The company gives warranty on certain products and undertakes to repair or replace items that fail to perform satisfactorily. Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### **Revenue recognition**

Revenue comprises the invoiced value for the sale of goods and services net of value-added tax, rebates and discounts, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Revenue from sales of goods is based on the stage of completion determined by reference to work performed to date as a percentage of total work to be performed.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group. Dividends are recognised when the right to receive payment is established.

### **Dividends**

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

### **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

## Financial Risk Management

### Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain exposures. Risk management is carried out within the group where applicable under policies approved by the Board of Directors.

### Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to euros. Entities in the Group use forward contracts to hedge their exposure to foreign currency risk in connection with the measurement currency.

### Credit risk

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

### Accounting for derivative financial instruments and hedging activities

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognised in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset (for example, property, plant and equipment) or of a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense, under operating profit, in the same periods during which the hedged firm commitment or forecasted transaction affects the income statement (for example, when the forecasted sale takes place).

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the income statement under finance cost.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecasted transaction ultimately is recognised in the income statement. When a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, both at the 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.



## Notes

<b>1. Quarterly results</b>	Q4 2004	Q3 2004	Q2 2004	Q1 2004	Q4 2003
Sales .....	29.120	26.823	31.287	25.071	31.606
Cost of sales .....	<u>(18.570)</u>	<u>(17.489)</u>	<u>(19.537)</u>	<u>(15.890)</u>	<u>(22.549)</u>
<b>Gross profit</b> .....	<b>10.550</b>	<b>9.334</b>	<b>11.750</b>	<b>9.181</b>	<b>9.057</b>
Other operating income .....	180	93	163	162	88
Selling and marketing expenses .....	(3.741)	(3.179)	(3.724)	(3.551)	(3.473)
Development expenses .....	(2.334)	(1.508)	(1.845)	(1.770)	(1.908)
Administrative expenses .....	<u>(2.181)</u>	<u>(2.320)</u>	<u>(2.616)</u>	<u>(2.048)</u>	<u>(2.042)</u>
<b>Profit from operations (EBIT)</b> .....	<b>2.474</b>	<b>2.420</b>	<b>3.728</b>	<b>1.974</b>	<b>1.722</b>
Finance costs - net .....	<u>(730)</u>	<u>(396)</u>	<u>(427)</u>	<u>(326)</u>	<u>(390)</u>
<b>Profit before tax</b> .....	<b>1.744</b>	<b>2.024</b>	<b>3.301</b>	<b>1.648</b>	<b>1.332</b>
Income tax expense .....	(316)	(616)	(745)	(347)	(21)
Net worth tax expense .....	<u>(25)</u>	<u>(14)</u>	<u>(26)</u>	<u>(13)</u>	<u>(15)</u>
<b>Net profit</b> .....	<b><u>1.403</u></b>	<b><u>1.394</u></b>	<b><u>2.530</u></b>	<b><u>1.288</u></b>	<b><u>1.296</u></b>
Profit before depreciation (EBITDA) .....	3.393	3.337	4.566	2.796	2.646
<b>2. Finance costs – net</b>				2004	2003
Interest expense:					
- bank borrowings .....				(1.368)	(1.123)
- finance leases .....				(89)	(12)
- other interest expenses .....				<u>(43)</u>	<u>(770)</u>
				(1.500)	(1.905)
Interest income .....				150	221
Dividend income .....				0	1
Net foreign exchange transaction gains/(losses) .....				<u>(529)</u>	<u>25</u>
				<u>(1.879)</u>	<u>(1.658)</u>
<b>3. Staff costs</b>				2004	2003
Wages .....				42.688	39.565
Related expenses .....				<u>4.372</u>	<u>3.984</u>
				<u>47.060</u>	<u>43.549</u>
Staff costs analyses as follows in the income statement:					
Cost of sales .....				28.637	26.639
Selling and marketing expenses .....				8.483	8.048
Development expenses .....				4.765	4.131
Administrative expenses .....				<u>5.175</u>	<u>4.731</u>
				<u>47.060</u>	<u>43.549</u>

The average number of employees in 2004 was 836 (2003: 773). In the year end 2004, the number of employees was 841 (2003: 788).

## Notes

<b>4. Income tax expense</b>	2004	2003
Current tax .....	538	801
Deferred tax (Note 13) .....	1.486	309
	<u>2.024</u>	<u>1.110</u>

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

Profit before tax .....	<u>8.717</u>	<u>3.749</u>
Tax calculated at a tax rate of 18% (2003: 18%) .....	1.569	675
Effect of different tax rates in other countries .....	350	450
Translation differences .....	46	(15)
Permanent differences for tax purposes .....	88	0
Utilisation of previously unrecognised tax losses/tax asset not recognized .....	(29)	0
Tax charge .....	<u>2.024</u>	<u>1.110</u>

## 5. Earnings per share

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

	2004	2003
Net profit attributable to shareholders (EUR 000) .....	6.615	3.749
Weighted average number of outstanding shares in issue (thousands) .....	234.600	236.278
Basic earnings per share (EUR cent) .....	<u>2,82</u>	<u>1,59</u>

The diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2004	2003
Net profit used to determine diluted earnings per share (EUR 000) .....	<u>6.615</u>	<u>3.749</u>
Weighted average number of outstanding shares in issue (thousands) .....	234.600	236.278
Adjustments for share options (thousands) .....	5.322	3.995
Weighted average number of outstanding shares for diluted earnings per share (thousands) .....	<u>239.922</u>	<u>240.273</u>
Diluted earnings per share (EUR cent) .....	<u>2,76</u>	<u>1,56</u>

## Notes

### 6. Property, plant and equipment

	Land & buildings	Plant & machinery	Vehicles & equipment	Total
<b>Period ended 31 December 2004</b>				
Opening net book amount .....	25.471	4.775	2.864	33.110
Transfers to intangible assets .....	0	(25)	(277)	(302)
Adjusted opening balance .....	25.471	4.750	2.587	32.808
Business combination .....	0	46	33	79
Exchange differences .....	4	(3)	(2)	(1)
Additions .....	44	452	1.146	1.642
Disposals .....	0	(2)	(123)	(125)
Depreciation charge .....	(690)	(1.008)	(913)	(2.611)
Closing net book amount .....	24.829	4.235	2.728	31.792
<b>At 31 December 2004</b>				
Cost .....	27.153	11.543	7.450	46.146
Accumulated depreciation .....	(2.324)	(7.308)	(4.722)	(14.354)
Net book amount .....	24.829	4.235	2.728	31.792

	2004	2003
Depreciation of property, plant and equipment analyses as follows in the income statement:		
Cost of sales .....	1.915	1.960
Selling and marketing expenses .....	318	215
Development expenses .....	177	232
Administrative expenses .....	201	238
	<u>2.611</u>	<u>2.645</u>

### 7. Intangible assets

	Goodwill	Development costs	Patents	Software	Total
<b>Period ended 31 December 2004</b>					
Opening net book amount .....	3.515	499	170	0	4.184
Transfers from PPE .....	0	0	0	302	302
Adjusted opening balance .....	3.515	499	170	302	4.486
Exchange differences .....	3	0	0	0	3
Additions .....	4.451	251	211	39	4.952
Amortisation charge .....	(282)	(251)	(197)	(155)	(885)
Closing net book amount .....	7.687	499	184	186	8.556

	2004	2003
Amortisation of intangible assets analyses as follows in the income statement:		
Cost of sales .....	45	56
Selling and marketing expenses .....	319	245
Development expenses .....	489	573
Administrative expenses .....	32	42
	<u>885</u>	<u>916</u>

Development costs principally comprises internally generated expenditure on major development projects where it is probable that the costs will be recovered through future commercial activity.

## Notes

	2004	2003
<b>8. Inventories</b>		
Raw materials .....	11.705	9.491
Work in progress .....	3.980	2.815
Finished goods .....	6.584	4.387
	<u>22.269</u>	<u>16.693</u>
Inventories of EUR 5.934 (2003+A963: EUR 5.550) have been pledged as security for borrowings.		
<b>9. Ordered work in process</b>		
Ordered work in process .....	12.475	15.625
Advances received on ordered work in process .....	(6.616)	(9.561)
	<u>5.859</u>	<u>6.064</u>
<b>10. Receivables and prepayments</b>		
Current receivables and prepayments:		
Trade receivables .....	13.884	14.131
Less: Provision for impairment of receivables .....	(619)	(786)
Trade receivables – net .....	13.265	13.345
Forward foreign exchange contracts .....	190	0
Other receivables and prepayments .....	2.389	1.423
	<u>15.844</u>	<u>14.768</u>
<b>11. Trade and other payables</b>		
Trade payables .....	6.523	5.911
Interest rate swaps .....	252	0
Accruals .....	1.541	456
Deferred income .....	4.233	1.191
Other payables .....	6.901	6.751
	<u>19.450</u>	<u>14.309</u>
<b>12. Borrowings</b>		
Non-current:		
Bank borrowings .....	21.529	21.590
Debentures .....	8.776	7.737
Finance lease liabilities .....	1.137	1.562
	<u>31.442</u>	<u>30.889</u>
Current:		
Bank overdrafts .....	3.117	3.261
Bank borrowings .....	3.428	5.063
Debentures .....	0	390
Finance lease liabilities .....	480	427
	<u>7.025</u>	<u>9.141</u>
Total borrowings .....	<u>38.467</u>	<u>40.030</u>

## Notes

The borrowings include secured liabilities (leases and bank borrowings) in a total amount of EUR 35.485 (2003: EUR 21.777). The bank borrowings are secured over certain of the land and buildings of the Group and over certain of the inventories. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

	Finance lease liabilities	Other borrowings	Total 2004	Total 2003
Liabilities in currency:				
Liabilities in CAD .....	0	546	546	0
Liabilities in CHF .....	0	2.486	2.486	8.976
Liabilities in DKK .....	136	7.887	8.023	8.976
Liabilities in EUR .....	1.322	21.845	23.167	25.379
Liabilities in JPY .....	0	618	618	1.137
Liabilities in NOK .....	0	568	568	0
Liabilities in USD .....	63	2.746	2.809	4.348
Liabilities in other currency .....	96	154	250	190
	<u>1.617</u>	<u>36.850</u>	<u>38.467</u>	<u>49.006</u>
Current maturates .....	(480)	(6.545)	(7.025)	(9.141)
	<u>1.137</u>	<u>30.305</u>	<u>31.442</u>	<u>39.865</u>
Annual maturates of non-current liabilities:				
Year 2006 / 2005 .....	478	6.588	7.066	2.769
Year 2007 / 2006 .....	438	2.339	2.777	5.463
Year 2008 / 2007 .....	220	2.173	2.393	2.402
Year 2009 / 2008 .....	1	2.050	2.051	2.208
Later .....	0	17.155	17.155	18.047
	<u>1.137</u>	<u>30.305</u>	<u>31.442</u>	<u>30.889</u>

### 13. Deferred income taxes

Deferred income taxes are calculated in full on temporary differences under the liability method.

	2004	2003
The movement on the deferred income tax account is as follows:		
Beginning of the year .....	(309)	(634)
Exchange differences and changes within the group .....	166	15
Income statement charge (Note 4) .....	2.024	1.110
Less current tax .....	(538)	(800)
Tax charged to equity .....	(42)	0
	<u>1.301</u>	<u>(309)</u>

The deferred tax charged/(credited) to equity during the year is as follows:

	2004	2003
Fair value reserves in shareholders' equity		
– hedging reserve (Note 17) .....	42	0
	<u>42</u>	<u>0</u>

## Notes

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:

	2004	2003
Deferred tax assets .....	(1.020)	(1.035)
Deferred tax liabilities .....	<u>2.321</u>	<u>726</u>
	<u>1.301</u>	<u>(309)</u>
Deferred income tax liability (assets) analyses on the following items:		
Non-current assets .....	1.864	887
Hedge reserve .....	(42)	0
Taxable loss carried forward .....	(1.406)	(1.430)
Other items .....	<u>885</u>	<u>234</u>
	<u>1.301</u>	<u>(309)</u>

### 14. Provisions

Warranty:		
Beginning of the year .....	491	447
Changes entered into income statement .....	135	45
Exchange differences .....	<u>0</u>	<u>(1)</u>
	<u>626</u>	<u>491</u>

Analysis of total provisions:		
Current .....	<u>626</u>	<u>491</u>

### 15. Contingencies

Contingent liabilities:

On 31 December 2004 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 1.010 (2003 : EUR 1.996) to third parties.

### 16. 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 1.3 million. The amount will be charged at the relevant rental time of each agreement. The rental agreements will materialise in the years 2005 - 2009.

#### Insurance

The Group has bought a loss of profit insurance which will cover work stoppage for up to 12 months, based on terms of operation insurance agreement. The insurance benefits amounts up to EUR 48 million. The Group insurance value of buildings amounts to EUR 28,1 million, production machinery and equipment including software and office equipment amounts to EUR 21,3 million and inventories to EUR 22,4 million.

## Notes

### 17. Fair value reserves and other reserves

	Hedging reserve	Translation reserve	Total
Balance at 1 January 2004 .....	0	(1.196)	(1.196)
Cash flow hedges:			
– Fair value gain/(loss) in period .....	(62)		(62)
– Tax on fair value .....	42		42
Currency translation differences .....		(234)	(234)
	<u>(20)</u>	<u>(1.430)</u>	<u>(1.450)</u>

### 18. Cash generated from operations

	2004	2003
Net profit .....	6.615	3.749
Adjustments for:		
Tax .....	2.102	1.160
Depreciation and amortisation .....	3.496	3.561
Loss/(gain) on sale of property, plant and equipment .....	8	(6)
Interest expense and foreign exchange rate differences .....	1.339	1.223
Changes in working capital:		
Inventories and ordered work in process .....	(4.476)	(2.881)
Trade and other receivables .....	(441)	2.588
Payables .....	4.491	(2.234)
Provisions .....	18	(119)
Cash generated from operations .....	<u>13.152</u>	<u>7.041</u>

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

Net book amount .....	125	331
Profit / (loss) on sale of property, plant and equipment .....	(8)	6
	<u>117</u>	<u>337</u>

### 19. Available-for-sale investments

Beginning of the year .....	753	753
Business combination .....	12	0
Disposed of .....	(12)	0
	<u>753</u>	<u>753</u>
Non-current .....	<u>753</u>	<u>753</u>

Available-for-sale investments, comprising principally equity securities, are fair valued annually at the close of business on 31 December. Fair value is estimated by reference to the current market value of similar instruments, by reference to the discounted cash flows of the underlying net assets or at cost. There were no provisions for impairment on available-for-sale investments in 2004 or 2003.

Available-for-sale investments are classified as non-current assets, unless they are expected to be realised within twelve months of the balance sheet date or unless they will need to be sold to raise operating capital.

## Notes

### 20. Business combination

On 1 April 2004 the Group acquired 100% of the share capital of Póls hf. manufacturer of equipment for the fisheries, meat and poultry industries. The acquired business contributed revenues of EUR 1.795 and net profit of EUR 239 to the Group for the period from 1 April 2004 to 31 December 2004. At year end the Group acquired the operation of Geba, manufacturer of equipment for slicing salmon fillets. The acquired business did not contribute revenue to the group in the year 2004.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
– Cash paid.....	3.863
– Direct cost relating to the acquisition.....	60
– Fair value of shares issued.....	1.267
	<u>5.190</u>
Fair value of net assets acquired.....	<u>(739)</u>
Goodwill (Note 7).....	<u>4.451</u>

Under certain circumstances if operating goals will be reached within three years in Póls hf, maximum EUR 285 has to be paid in addition to the purchase price above. Due to uncertainty at this stage, no liability is raised.

The fair value of the shares issued was based on the published share price.

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

Cash and cash equivalents .....	83
Property, plant and equipment (Note 6).....	79
Available-for-sale investments (Note 19).....	12
Inventories.....	1.213
Ordered project in process.....	50
Receivables and prepayments.....	227
Trade and other payables.....	(415)
Current tax liabilities.....	(3)
Borrowings.....	(507)
Fair value of net assets acquired.....	<u>739</u>
Goodwill (Note 7).....	<u>4.451</u>
	<u>5.190</u>
Less:	
Discharged by shares issued.....	(1.267)
Cash and cash equivalents in subsidiary acquired.....	(83)
Proceeds from borrowings.....	<u>(1.999)</u>
Cash outflow on acquisition .....	<u>1.841</u>

There were no acquisitions in the year ended 31 December 2003.



## Notes

### 21. Related party transactions

At the end of period, there are no loans to directors (2003: EUR nil).

#### Management salaries and benefits

	Payroll and benefits	Stock options*	Selling rights*	Shares at year-end*
Managing Director.....	297	12	14	17
Present Chairman of the Board of Directors.....	0	0	0	2
Ex-Chairman of the Board of Directors.....	12	0	0	6
Present members of the Board of Directors.....	17	0	0	12
Ex-member of the Board of Directors.....	6	0	0	0
Alternates.....	3	0	0	0
Seven Directors.....	1.070	26	31	55
	<u>1.405</u>	<u>38</u>	<u>45</u>	<u>92</u>

\*Shares are at nominal value in thousands of EURO.

The above mentioned option rights are part of the stock option agreements which are explained here below.

The above mentioned selling rights are part of a buying of 5,2 million shares, at the price ISK 20 pr. share, by a few employees of the company. Parallel to this transaction Marel hf gave the buyers selling right for bought shares to protect them from possible loss due to the transactions.

### Directors

In 2003, 12 directors bought at the market share price on that date 5,2 million shares of ISK 20 per share. The company ensures acquisition of the shares at a price that protect them from possible loss due to the transactions.

### 22. Share options

Share options are granted to directors and to employees. The exercise price of the granted options is equal to the market price of the shares on date of the grant (1 January 2001). Options are conditional on the employee completing particular period's service (the vesting period). The options were exercisable starting one year and three months from the grant date; the options have a contractual option term of six years. The group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	Average exercise price in ISK per share	Options (thousands)
At 1 January .....	42	7.990
Granted .....		0
Forfeited .....	42	(260)
Exercised .....	42	(634)
At 31 December .....	42	<u>7.096</u>

Out of the 7.096 thousand outstanding options, 5.322 thousand options were exercisable at 31 December 2004. Share options outstanding can be transferred between years but have expiry date at year-end 2007.

## Notes

### 23. Principal subsidiaries

Marel Australia Pty Ltd .....	Australia
Marel Chile .....	Chile
Marel Equipment Inc .....	Canada
Marel Scandinavia A/S .....	Denmark
Marel UK Ltd .....	UK
Marel USA Inc .....	USA
Marel TVM GmbH & Co KG .....	Germany
Marel Deutschland GmbH .....	Germany
Marel Management GmbH .....	Germany
Pols hf .....	Iceland
Carnitech A/S .....	Denmark

All subsidiaries are wholly owned. All holdings are in the ordinary share capital of the entity concerned. In the year 2004, the group established a wholly owned subsidiary in Chile and Pols hf was aquired. The operation in Marel France was ceased in the year 2004.

### 24. Fees to Auditors

	2004	2003
Audit of financial statements .....	204	162
Review of interim financial statements .....	52	40
Other services .....	67	66
	<u>323</u>	<u>268</u>

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

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