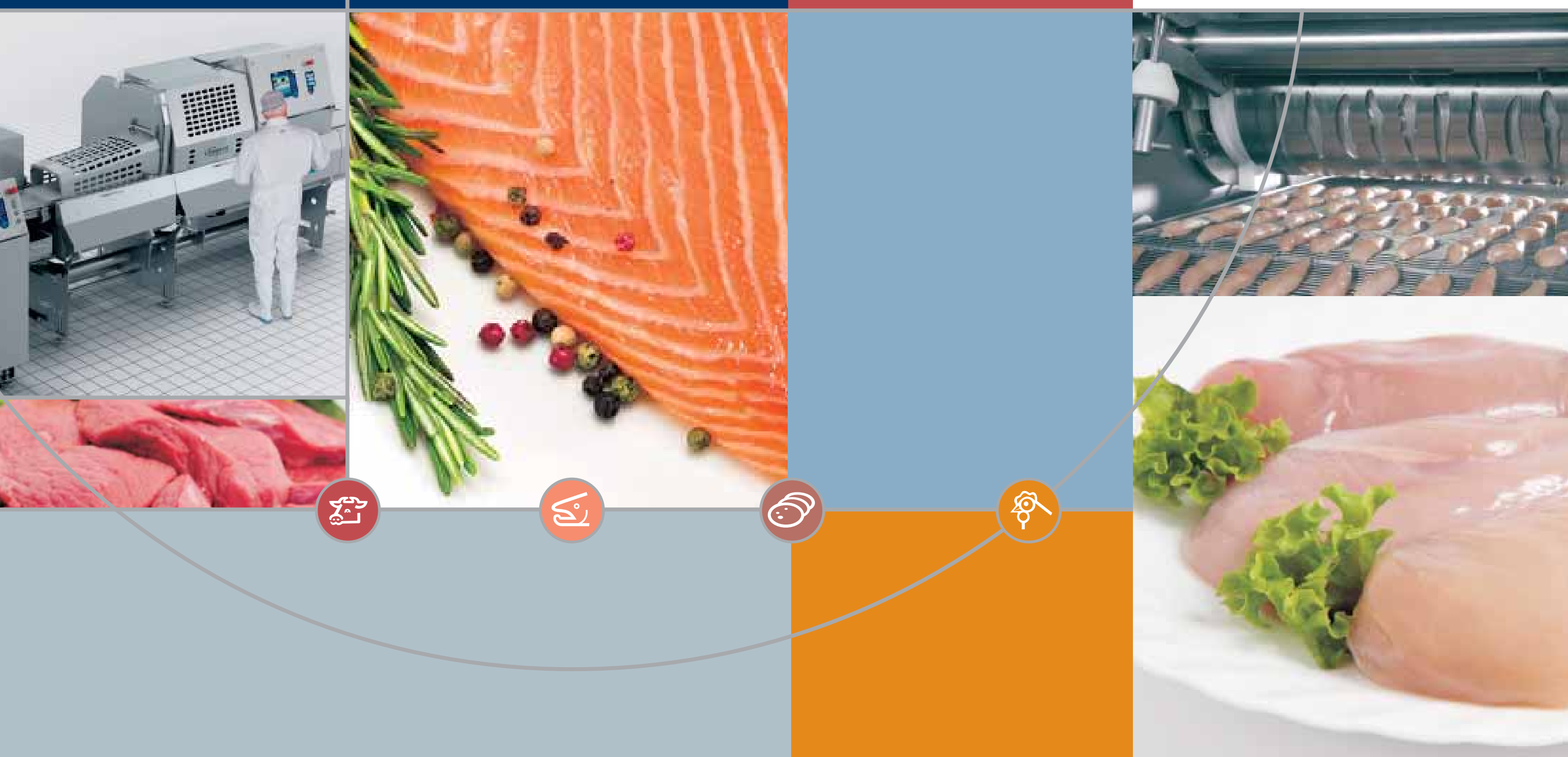
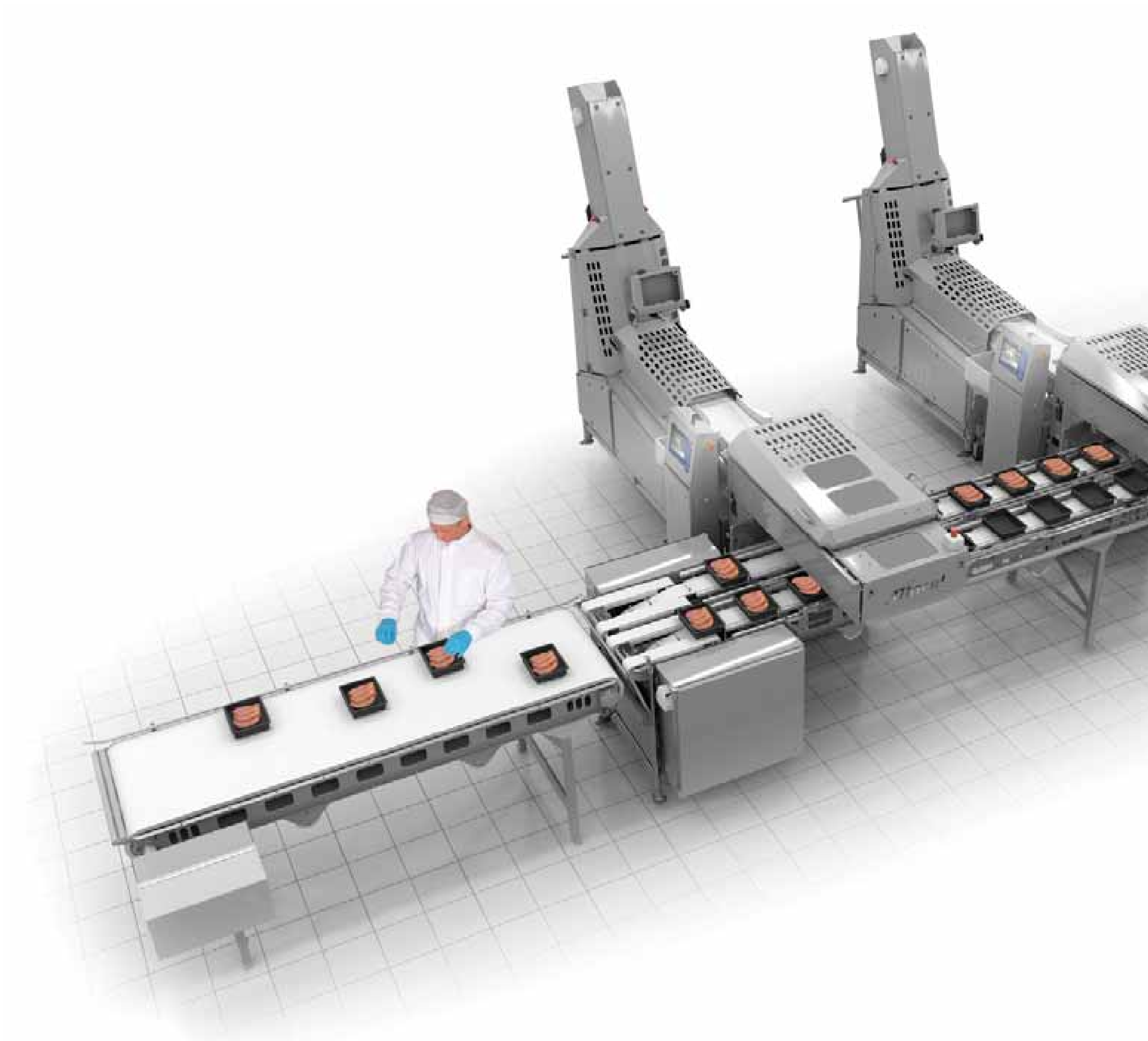
ANNUAL REPORT **2008**



RETURN ON INNOVATION

marel food systems

We work side-by-side with our customers to extend the boundaries of food processing performance.



GLOBAL LEADER

The merger of Marel and Stork Food Systems in 2008 brought together some of the best and most respected brands in the food processing industry. We are proud of our common heritage, which stretches back to the early 1930s.

We firmly believe we are greater than the sum of our excellent parts. United, we offer food processors the world over the convenience of a one-stop-shop, a single source for state-of-the-art equipment and systems that span the entire production process and meet our customers' wide-ranging needs. More and more companies are looking for a single supplier who can deliver complete processing and turnkey systems.
A single source helps to ensure a safe, reliable and efficient installation that guarantees optimal performance. That's exactly what Marel Food Systems has to offer.

Our vision is to continue to strengthen our position as the international leader in the development and marketing of advanced processing equipment for the food processing industry, with a primary focus on increasing the productivity of our customers. That's why innovation is the lifeblood of our company. We are committed to investing in knowledge and fostering creativity throughout our organisation.

Number 1 globally

In advanced equipment and systems for poultry processing

Number 1 globally

In advanced equipment and systems for seafood processing

Major global

provider of advanced equipment and systems for meat processing

Contents

Marel Food Systems in brief

Marel Food Systems is the leading global provider of advanced equipment and systems for the food processing industry. Our internationally renowned brands include AEW Delford, Carnitech, Dantech, Marel and Scanvaegt, and in May 2008, we joined forces with Stork Food Systems, a leading provider of systems for poultry, meat and dairy processing. United, we are at the forefront of innovation in the food processing industry, helping our customers around the world to increase their productivity.

We are a single source provider for food processors the world over, with a primary focus on the rapidly expanding protein segment of the industry, which has been growing at an average annual rate of 5-6% for the past 15 years. We are the global leader in integrated systems for the fish and poultry industry segments, and a major provider to the meat industry. From harvesting raw materials to packaging the final product – from standardized stand-alone units to all-inclusive integrated turnkey systems – our products are designed to meet customers' every need.

Marel Food Systems thrives on innovation. With our annual investment of 4-6% of income in research and development – far above the industry average – we are constantly pushing the envelope of what is possible. Our cutting edge equipment and software components help food processors of all sizes, in all markets, to operate at peak productivity, whether it be in the processing of fish, meat, poultry, cheese or prepared foods. Our products positively and directly enhance the overall quality and value of food.

Global presence

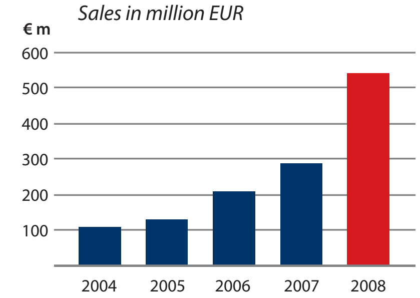
Marel Food Systems is a multinational company, with close to 4,000 employees worldwide. We are made up of eight business units, located in Denmark, Iceland, the Netherlands, Singapore, Slovakia, the United Kingdom and the United States. We have offices and subsidiaries in over 30 countries and operate a network of about 60 agents and distributors that market, sell and service the company's products around the world.

Most of the company's products are manufactured in Denmark, Iceland, the Netherlands, Slovakia, the United Kingdom and the United States, with smaller production facilities in Brazil and Singapore.

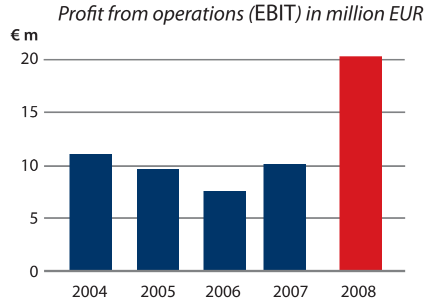
Marel Food Systems in figures

Note: *The following figures are from the consolidated accounts of Marel Food Systems. See pages 48-51 for pro forma financial results.*

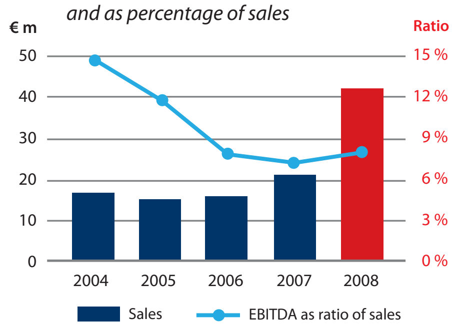
Sales in million EUR



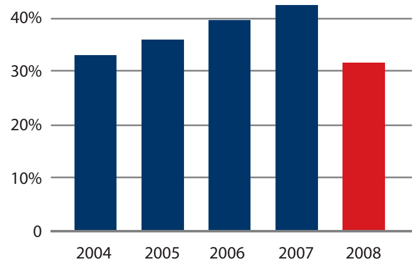
Profit from operations (EBIT) in million EUR



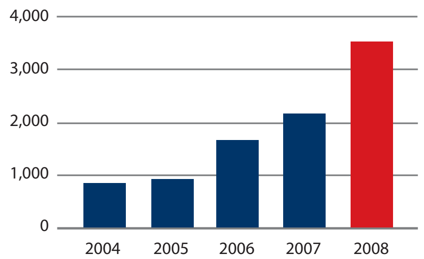
EBITDA in million EUR and as percentage of sales



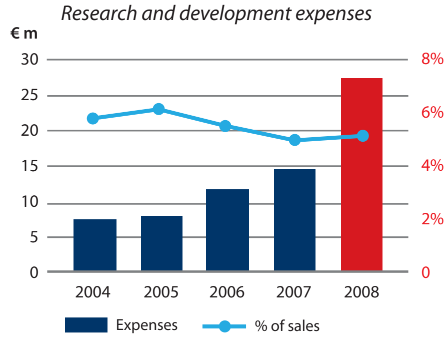
Equity ratio



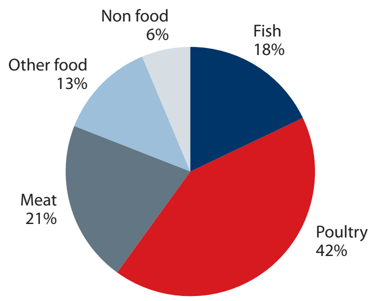
Number of employees, average per year



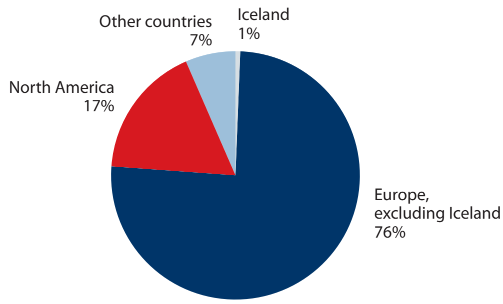
Research and development expenses



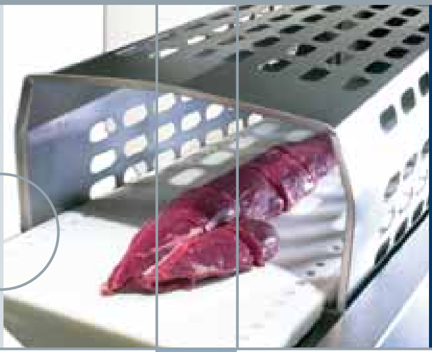
Sales in 2008, by business segment



Sales in 2008, by geographical location



The completion of our merger with Stork Food Systems in 2008 was an important milestone in the history of Marel Food Systems. United, we are the global leader in advanced equipment and systems for the food processing industry.



To our shareholders

Chairman's address

Marel Food Systems is today an undisputed world-wide industry leader in developing and providing advanced equipment and solutions to the poultry, fish and meat processing industry. Our aim is to increase customers' productivity significantly with our innovative solutions. Marel´s expansion in recent years has been based on profitable external and internal growth, fully in line with the two stage growth strategy and execution plan, published at our Annual General Meeting in 2006.

Marel Food Systems has completely changed the competitive landscape in a highly fragmented industry and set the basis for strong and profitable organic growth of the company in the years to come:

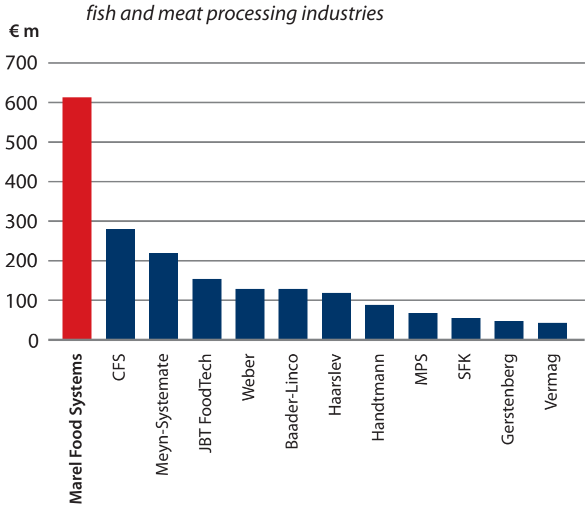
- In August 2006 Marel acquired its main competitor, Scanvaegt, founded by the Grundtvig family and headquartered in Denmark. The family subsequently became a major shareholder in Marel Food Systems. Earlier in 2006, Marel made a smaller acquisition of AEW/Delford in the UK, a complementary business mainly focusing on price labelling and the slicing segment.
- In May 2008, our long term industrial partner Stork Food Systems became part of our group. Stork Food Systems is an industry leader in the poultry business and the operation is fully complementary to Marel, which has strong roots in the fish processing industry.

Our industry has been growing at an annual rate in excess of 5% over the last decade due to geographical expansion and changes in customer habits. Looking forward, the underlying growth in the industry is predicted to be around 4% in Western Europe and North America. The growth in the emerging markets areas, Eastern Europe, South America, Middle East and Asia, is predicted to be around 6-8%.

After positive transformation and recent acquisitions, Marel Food Systems has the scale and scope to serve its global customers who are penetrating these fast growing markets. During the recent years the quality of earnings has also increased considerably:

- 2/3 of turnover stems today from sale of spare parts, services and standardized products. The economic downturn has limited effect on these sales.
- The group has a broad base of customers ranging from small family businesses to major global food providers. The single largest customer counts for less than 4% of total revenues in the group.
- The group is "know-how" driven and will continue to invest 4-6% in Research and Development to fuel future internal growth.

Global sales to the poultry, fish and meat processing industries



Pro forma turnover of Marel Food Systems' core business in 2008. Turnover of other companies based on estimates by Marel Food Systems. Turnover of CFS excludes packaging. Turnover of JBT FoodTech excludes sales related to fruit processing.

A tough end to a good year

After three substantial acquisitions, the focus has now been fully shifted towards increased internal growth and operational efficiency. In 2008 our pro forma sales increased by 4% and operational profits increased by 25% from the previous year.

We had a tough end to an otherwise good year in 2008 as the effects of the global financial crises influenced our Q4 results. We have already taken measures with immediate effects to lower our cost base to compensate for lower revenues due to postponement of orders for larger systems. The financial crisis has led to a world-wide economic downturn that is affecting all industries at the moment. To weather the storm we need to stay alert and focused with all hands on deck. With improved internal processes and further synergies we will be able to drive down our cost base to sustainable lower levels, freeing up capital to invest in new projects and markets, all leading to higher shareholder returns.

After careful evaluation of our current portfolio we are in the process of disposing 2-3 activities that we do not define as part of our core businesses. Afterwards we will have significantly decreased our leverage and become more focused on our profitable core businesses. Moreover these disposals will have a positive or limited effect on our operational profits.

Our company is well equipped for the future. We have limited or no need for capital expenditures in the next 2-3 years and there are ongoing working capital programs with the objective of using our working capital more efficiently. This should improve our cash flow significantly in coming years.

With these structural improvements, the ambition is to reach operational profits fully comparable with best in class industrial companies.

Strong support from investors and creditors

Marel Food Systems is today the largest company in terms of capitalization of the companies listed on the Nasdaq OMX Iceland Exchange and it is also among the largest export companies in Iceland. The company's growth in recent years has been strongly supported by shareholders and various international banks. Marel Food Systems has successfully raised EUR 260 million through five equity offerings in recent years, where principal shareholders, pension funds and individual investors have supported the growth strategy. The acquisition of Stork Food Systems was successfully financed through equity and syndications of loans lead by Rabo bank and Landsbanki with the participation of various European banks. The loans have duration of 8 years.

Outlook

The industry in which Marel Food Systems operates is interesting and fast-growing. It is driven by changes in consumer habits and geographical expansion. The industry's growth has exceeded economic growth considerably in the past 10 years and is expected to grow annually at a rate of 4-6% in the next years. Historically demand has built up during economic downturns resulting in above trend growth during the recovery. In the short term there are uncertainties due to the global financial crisis and the economic downturn. It is our responsibility to ensure that the company remains strong during the storm and emerges from it even stronger afterwards.

Our long term prospects remain good and as a global market and technological leader, Marel Food Systems will be in a unique position to capture the growth and opportunities in the market as the economy starts to improve.

Árni Oddur Þórðarson
Chairman of the Board

CEO's address

The completion of our merger with Stork Food Systems in 2008 was an important milestone in the history of Marel Food Systems. United, we are the global leader in advanced equipment and systems for the food processing industry.

When the acquisition of Stork Food Systems took effect in May, a period of rapid external growth was concluded, following three strategic acquisitions in the last two years. We had achieved our growth target, announced at the beginning of 2006, in a much shorter time than projected. Our goal had been to triple turnover over the following 3-5 years.

Marel Food Systems has now entered the second phase of the growth strategy wherein the focus is directed at internal growth and increased profitability driven by economies of scale and the synergies to be derived from the integration of the companies acquired.

In 2008, work on integration continued within both Marel Food Systems and Stork Food Systems, as well as between the two companies. Within the companies, the focus was primarily directed at integrating their sales networks and product lines, and harmonization of various business processes.

Operations

Overall, it can be said that 2008 was a good year but with a tough end. Despite the focus and resources directed at integration activities, we saw a good proforma sales growth of 4.4% compared to the previous year. Proforma profit from operations (EBIT) from core business, excluding one-off costs, was 8.5% of sales and grew from EUR 41.5 million to EUR 51.9 million, an increase of 25%.

The results were especially encouraging for the first three quarters of the year where we saw a proforma EBIT from core business amounting to 9.1% of sales, completely in line with the company's target of 9% for the year, and proforma sales growth of 11% compared to the same period the year before.

In the fourth quarter, sales fell with the onset of the international financial crisis. With access to capital increasingly limited, our customers' ability to invest, especially in large systems for new factories, was restricted, resulting in the decision to defer such investments in many cases. On the other hand, the crisis had no effect on the sale of spare parts and service, and very little on the sale of standard equipment and smaller systems.

In response to the changing market conditions, Marel Food Systems undertook extensive measures to reduce operational costs by an estimated EUR 15 million annually. Further rationalization measures will be introduced in the months ahead.

Markets

In 2008, Marel Food Systems continued to expand its operations in its key markets in North America and Europe. We have also been focusing increasingly on emerging markets in South America, Eastern Europe and Asia, which are expected to grow at up to twice the global rate in the next few years. With the completion of phase one of our growth strategy, we are now well placed to increase our presence in these markets, where there is a very strong demand for increased automation in food processing.

Customers

Marel Food Systems works hand-in-hand with its customers around the world to constantly push the envelope in the development of food processing technology. Our close cooperation with food processors of all sizes, in all markets, is the foundation on which the success of our company rests. It enables us to monitor emerging trends in the industry, identify the needs of our customers, and to respond with equipment, software and integrated systems that help them achieve optimal performance and profitability.

Product Development

Our customers need to be able to respond quickly to changing consumer demands and we need to be able to provide them with the necessary tools to do that. That is why a constant devotion to innovation is the lifeblood of the company, in order to be able to create added value for our customers and increase their productivity. Marel Food Systems is committed to investing annually 4-6% of revenues in product development, which is considerably higher than the industry average, in order to maintain its position as global leader. The merger with Stork Food Systems created one of the strongest innovation companies in the history of the food machinery industry.

Integration activities

The first steps taken in fulfilling the company's growth strategy were the acquisition of AEW/Delford and Scanvaegt in 2006, which more than doubled the company's turnover. The merger with Stork Food Systems doubled turnover again.

The product range of AEW/Delford and Scanvaegt was in many ways similar to that of Marel Food Systems and the companies operated in the same markets. The goal from the beginning was therefore to integrate their operations in order to achieve economies of scale.

In March 2008, a major step in the integration process was announced with the merger of Marel ehf. – our business unit in Iceland – and Scanvaegt under the name of the former with the aim of rationalizing overlapping product groups, both in terms of product development and manufacturing.

The next step, in 2009, is the merger of Marel ehf., AEW Delford and Carnitech (acquired in 1997) under the name of Marel Food Systems. The merger will further enhance efficiency, create additional value for our stakeholders and better enable us to present ourselves as one company toward our customers.

The integration of Marel Food Systems and Stork Food Systems has begun and we have adapted the slogan of "Best of Both" for the process to underline our commitment to combining the best practices of both companies. The focus in the beginning of the process is on the adoption of a common Management Information System and on achieving synergies through the harmonization of procurement, production and sales and marketing activities.

Stock development

Marel Food Systems is listed on the NASDAQ OMX Nordic Exchange in Iceland. Its shares are included in the OMXI6 Index, which consists of the six most traded and liquid listed companies. Following the failure of the Icelandic banking system in October, the Icelandic stock market collapsed. Compared with a 32.5% increase in 2007, the company's stock value, measured in ISK, decreased by 23.7% in 2008. The Board of Directors is authorized to register Company's share capital in another currency. Maximization of the company's stock value remains one of the main corporate goals.

In 2008, the group's stock turnover rate was 37% in comparison with 25.34% in 2007. Market-making is provided by New Landsbanki Islands and Saga Capital. The average end-of-day spread of Marel Food Systems was 0.74% in 2008 compared to 0.68% in the previous year.

Prospects

The company's operations, much like the operations of virtually every other company around the world, will be negatively affected by the global economic situation in the coming quarters.

Nevertheless, compared to most other industries, the food processing industry is well placed to weather the storm. It is an industry that has always adapted quickly to change and the recovery is likely to be rapid once the world economic situation improves. Moreover, it is likely that an accumulated need for investment among food processing companies will have built up by that time.

The economic downturn does, in fact, create opportunities for our industry. Changing consumer habits – with an increase in consumption of less expensive proteins like poultry, as well as "ready-made meals" – imply a need for ever more efficient processing equipment in the industry segments where Marel Food Systems is the global leader. Moreover, the drop in corn prices and base interest rates will make it easier for food processing companies to make the investment required to respond to changing consumer demands.

Marel Food Systems' objective of achieving at least a 10% operating profit (EBIT) remains unchanged. It is now projected that this will be achieved in the second half of 2009. Our valuation of the strong underlying growth in the industry remains unchanged. The long-term prospects of the company are good.

Dr. Hörður Arnarson
Chief Executive Officer

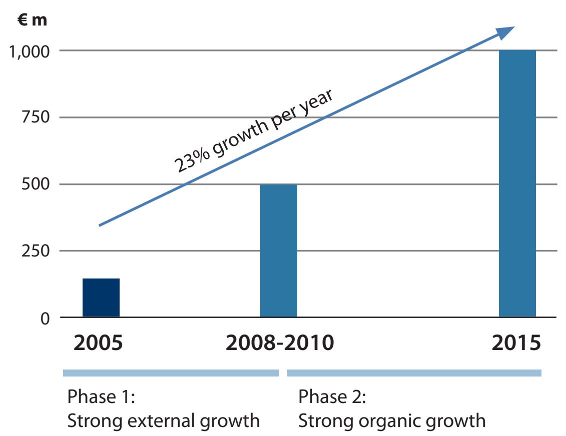
Corporate strategy

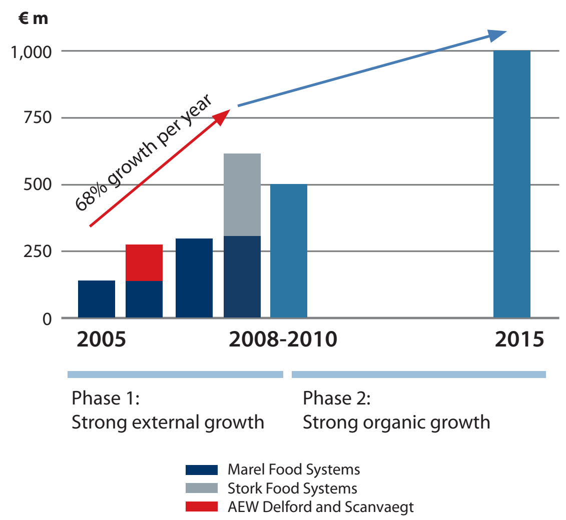
In 2006, Marel Food Systems announced an ambitious strategy to become, in two steps, one of three leading companies in its industry with a 15-20% market share. Turnover was to be tripled over the next 3-5 years to €500 million through strategic acquisitions. Thereafter, a turnover of €1 billion was to be reached by 2015 through strong organic growth.

The acquisition of Stork Food Systems in 2008 completed the first phase of Marel Food Systems' growth strategy in a much shorter period of time than originally expected, or just two years. Marel Food Systems has now become the global leader in advanced equipment and systems for the food processing industry, with an estimated market share of 15-16%, and has the global presence and critical size needed to tap into emerging markets.

The company has now entered the second phase of the growth strategy in which the emphasis shifts to internal growth and strengthening its presence in emerging markets, as well as increased profitability driven by economies of scale.

The food processing industry has undergone consolidation and integration in recent years, resulting in large multinational companies with operations spread across the globe. These companies, who are Marel Food Systems' customers, are increasingly expanding their activities into South America, Eastern Europe and Asia. In order to continue to thrive, Marel Food Systems must follow them into these markets, where the annual growth rate is expected to be double the global average in the next few years. With phase one of its growth strategy completed, the company is well equipped to do so.





Organizational structure

Following the acquisition of Stork Food Systems in 2008, Marel Food Systems now consists of eight business units, offices and subsidiaries in over 30 countries and a global network of about 60 agents and distributors.

The corporate offices, which provide general management and coordination of all the company's operations, are located in Iceland and Netherlands.

Business units

The business units of Marel Food Systems, apart from Stork Food Systems, are: AEW Delford Ltd. in the United Kingdom, Carnitech A/S in Denmark, Marel Food Systems s.r.o. in Slovakia, and Marel ehf. in Iceland and Denmark.

In March 2008, it was announced that Marel ehf. and Scanvaegt International – formerly the fifth business unit, located in Denmark – would be merged into one company that would be managed by a site manager and overseen by the management team of Marel ehf. The aim of the merger was to have the organisational structure better support product group units.

The Stork Food Systems group consists of the following companies: Stork PMT BV, Stork Titan BV and Stork Townsend BV in the Netherlands; and Stork Townsend Inc., Stork Gamco Inc. and Stork Titan Inc. in the United States.

Stork Food Systems is in the process of restructuring the operations of all the companies under three market-oriented business units, focusing respectively on poultry processing, fresh meat processing and further processing. The operations of the companies fall under the three business units in the following way:

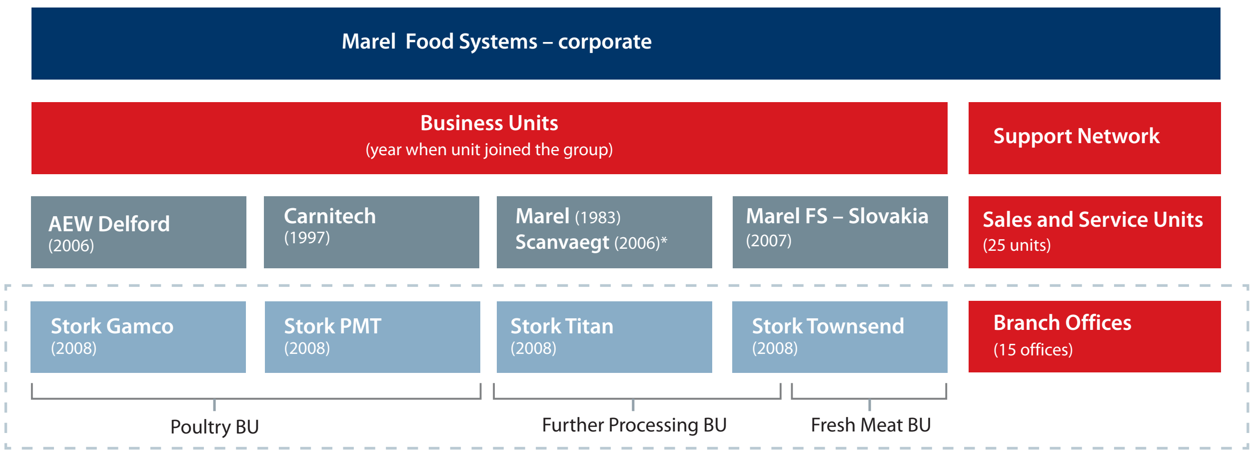
- Poultry Processing: Stork PMT BV and Stork Gamco Inc.
- Fresh Meat Systems: Stork Townsend BV and Stork Townsend Inc.
- Further Processing: Stork Titan BV, Stork Titan Inc., Stork Townsend BV and Stork Townsend Inc.

In addition, there is a fourth business unit, Stork Food and Dairy Systems in the Netherlands, which is not considered to be a part of Marel and Stork Food Systems' core business. The main activities of the company are the development, production and supply of integrated processing and filling lines for the dairy, juice, food processing and pharmaceutical (neutraceutical) industries.

Global network

The company has customers all over the world and places great emphasis on providing services as close to them as possible.

Marel Food Systems operates a network of 25 Sales and Service Units (SSUs) around the world while Stork Food Systems has branch offices in 15 countries.



* Operations of Scanvaegt were combined with Marel in 2008

Shares and shareholders

Share performance

Marel Food Systems (symbol: MARL) is listed on the NASDAQ OMX Nordic Exchange Iceland. Its shares are included in the OMXI6 index, which consists of the six most traded and liquid listed companies. It replaced the OMXI15 index at the beginning of 2009. Marel Food Systems' share price stood at ISK 77.8 (EUR 0.46) at the end of 2008, compared to ISK 102.0 (EUR 1.11) at the end of 2007, a decrease of 23.7% (in EUR 59.1%). During the same period the OMI15 index fell by 94.4%. During the year, the highest end-of-day price was ISK 102.0 (EUR 1.12) and the lowest end-of-day price was ISK 70.0 (EUR 0.41).

Share capital

Marel Food Systems issued 176.51 million new shares in 2008: 156.44 million were issued in June in relation to the acquisition of Stork Food Systems and 20.07 million were issued in October with the purpose of further strengthening Marel Food Systems' finances and to increase free float of its shares.

When introducing the acquisition of Stork Food Systems on 29th November 2007, it was announced that the company intended to raise EUR 147 million by issuing new shares to finance the acquisition. Following approval by the Board of Directors, Marel Food Systems increased its common shares by 156.44 million, or 38.74% of share capital, with a share offering that ended on the 6th of June 2008. The company raised approximately EUR 117 million and at the same time strengthened its shareholder base. Landsbanki Islands – Corporate Finance was the manager of the share offering. This offering along with the amount of EUR 30 million raised by a private placement that concluded on the 10th of December 2007 marked the end of Marel Food Systems' financing of the acquisition of Stork Food Systems.

Furthermore, a private placement of new shares was successfully completed on the 16th of October with subscriptions for shares amounting to 20.07 million nominal value, or 3.58% of share capital. It raised Marel Food Systems approximately EUR 10 million to strengthen further the finances of the company and to increase trade in its shares. The private placement was managed by New Landsbanki Islands.

At year end, Marel Food Systems shares totalled 580,300,312.

Shareholders

The number of shareholders in Marel Food systems was recorded on the shareholders register to be 1,836 at year-end 2008, compared to 2,038 shareholders at year-end 2007.

As of 31st December 2008, Marel Food Systems holds 1,436,009 treasury shares, or 0.25% of total share capital.

Liquidity of shares

An agreement is in place with Saga Capital regarding market-making for issued shares. The purpose of such agreements is to improve liquidity and enhance transparent price formation in the company's shares on the OMX Nordic Exchange. Marel Food Systems has also had a market-making agreement with Landsbanki Islands hf. since 2006. That agreement and the obligations stated therein were taken over by New Landsbanki Islands hf. as of 20th October 2008.

Shares in Marel Food Systems were traded 2,258 times in 2008 for a total market value of ISK 15.7 billion (up from ISK 8.2 billion in 2007), which corresponds to a turnover rate of 37%. The average end-of-day spread of Marel Food Systems was 0.74%. The market value of the company at year-end 2008 was ISK 45.2 billion (EUR 264.2 million) compared to ISK 41.2 billion (EUR 449.3 million) at year-end 2007, an increase of ISK 4.0 billion (decrease of EUR 185.1 million). As the shares of the company are traded in ISK, the fall of the krona in wake of the collapse of the Icelandic banking system in October 2008 has a great effect on the market value, when converted into EUR.

DISTRIBUTION OF SHARES AS OF 31 DECEMBER 2008

Number of Shares		Shareholders	%	Shares	%
1	9,999	1,257	68.46%	4,818,101	0.83%
10,000	99,999	464	25.27%	12,898,152	2.22%
100,000	199,999	44	2.40%	6,149,637	1.06%
200,000	799,999	35	1.91%	13,535,497	2.33%
800,000	1,399,999	9	0.49%	8,793,236	1.52%
1,400,000	2,999,999	10	0.54%	20,762,117	3.58%
3,000,000	9,999,999	9	0.49%	45,112,164	7.77%
10,000,000	99,999,999	6	0.33%	133,335,696	22.98%
100,000,000	+	2	0.11%	334,895,712	57.71%
		1,836	100%	580,300,312	100%

Dividend

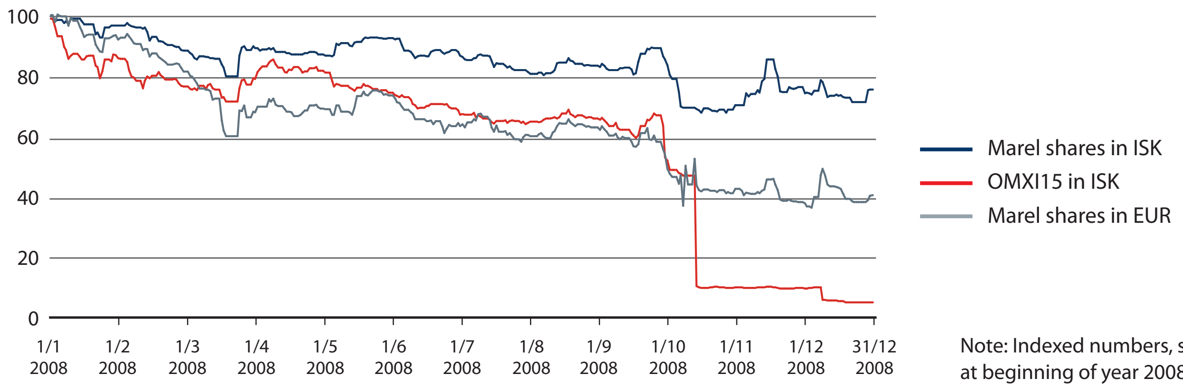
Marel Food systems paid no dividend in 2008.

Share options to key employees

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

Excercisable	Number of shares (in thous.)	Exercise price (ISK)	Exercisable in
Option 1	11,390	70	2009-2011
Option 2	2,000	74	2008-2010
Option 3	1,050	74	2009-2011
Option 4	1,315	92	2010-2012
Option 5	11,625	89	2011-2013
Total	27,380		

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



Note: Indexed numbers, set at 100 at beginning of year 2008.

Investor relations

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

Information Policy

The cornerstone of the company's information policy is to provide current and potential investors with equal access to consistent and transparent data, in as much detail as is commercially sensible.

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

All price sensitive information, regulatory announcements about Marel Food Systems and announcement regarding performance and future prospects are published in a timely manner, initially on the website of Nasdaq OMX Nordic Exchange, *www.nasdaqomxnordic.com*, and subsequently on Marel Food Systems' official website, www.marel.com.

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

Investors meetings

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

www.marel.com

In September, Marel Food Systems launched a new official website which contains detailed information about the company, its history, operations and activities, presented in a clear and appealing manner. Current and past press releases, presentations and annual reports are archived on the website and available for download, and the company's current and historic share prices are available for review against key indices.

Annual report

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

Publication schedule for 2009-2010

Reports:

6 May 2009	1st Quarter
6 August 2009	2nd Quarter
3 November 2009	3rd Quarter
4 February 2010	4th Quarter and annual results
3 March 2010	Annual General Meeting

Investors relations contacts

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Corporate Director of Marketing and Public Relations
Tel: +354 563-8118
Email: *ingolfur.gudmundsson@marel.com*

Risk management

Marel Food Systems' activities expose it to a variety of financial risks: market risk, including foreign exchange risk and price risk, credit risk, liquidity risk, cash flow risk and fair value interest-rate risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the company's financial performance. The company uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out within the company where applicable under policies approved by the Board of Directors. The company will continue to improve its risk management guidelines even further in 2009 through the centralization of the company's financial risk management function.

Foreign exchange risk

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

Credit risk

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

Liquidity risk

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

Cash flow and fair-value interest rate risk

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

The company manages its cash-flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The company raises long-term borrowings at floating rates, and swaps them into fixed rates that are lower than those available if the company borrowed at fixed rates directly. The risk, measured as the potential increase in interest paid during the coming year based on a defined move in interest rates, is monitored and evaluated regularly.

Insurance policies

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

CEO and Board of Directors

Chief Executive Officer

Dr. Hörður Arnarson

- Education: Engineering, Ph.D., 1990, Technical University of Denmark. Electronic Engineering, B.Sc., 1985, University of Iceland.
- Holdings in Marel Food Systems, including those of financially related parties: 1,751,244 shares

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

Chairman of the Board

Árni Oddur Þórðarson

- Education: MBA from IMD in Switzerland 2004. Cand. Oecon./Business Administration from the University of Iceland 1993.
- Elected: 2005
- Holdings in Marel Food Systems, including those of financially related parties: 229,056,582 shares

Árni Oddur is the CEO of Eyrir Invest ehf, and has extensive international business experience. He has served on the boards of various businesses through the years. Before co-founding Eyrir Invest he was head of Corporate Finance and Capital Markets in Búnaðarbanki Íslands, which later merged with Kaupthing Bank. Árni Oddur is a board member of the industrial group Stork BV since 2008 and has also served as a board member of Ölgerðin hf., Iceland's largest consumer products distributor, since 2003.

Board Members

Arnar Þór Másson

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

Arnar is the Deputy Director General of the Financial Management Department at the Ministry of Finance. He has worked at the Ministry since 2001 where he specializes in public sector reforms and management. Alongside his work at the Ministry, Arnar was an Adjunct lecturer at the Department of Political Science at the University of Iceland from 2000 until 2008. Arnar does not sit on the board of any other company than Marel Food Systems hf. He was on the boards of Hjaltadalur Heating Utility sf from April 2003 until November 2005, and the Weights and Measures Office from April 2003 until July 2005.

Friðrik Jóhannsson

- Education: Cand. Oecon. University of Iceland 1983. Certified Public Accountant, 1987.
- Elected: Alternate 1997-2004. Board member since 2004. Chairman of the Board from the AGM 2005 until October 2005.
- Holdings in Marel Food Systems, including those of financially related parties: 4,800,000 shares

Friðrik joined Iceland Investment Corporation (IIC) at the end of 1986 as CFO, and became CEO in 1989. IIC was acquired by Skandia in 1993, and Friðrik became CEO of Skandia´s operation in Iceland, which comprised non life insurance, life insurance, securities brokerage, asset management and mutual and private pension funds. In 1997 he became the Managing Director of Burðarás Investments. Friðrik became CEO of Burðarás, an ICEX listed investment company in 2004, and the CEO of Straumur Burðarás Investment Bank in 2006. Friðrik retired from his position at the bank in June 2007 and is currently an active investor in various financial markets.

Helgi Magnússon
- Education: Business Administration from the University of Iceland, 1974. CPA 1975.
- Elected: 2005
- Holdings in Marel Food Systems, including those of financially related parties: 6,308,044 shares

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

Margrét Jónsdóttir
- Education: Master of Accounting and Auditing from the University of Iceland, 2006, Cand. Oecon. in Business Administration from University of Iceland, 1983.
- Elected: 2006
- Holdings in Marel Food Systems, including those of financially related parties: 229,125,132 shares

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

Lars Grundtvig
- Education: Bachelor of Commerce
- Elected: 2007
- Holdings in Marel Food Systems, including those of financially related parties: 61,560,494 shares

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

Board of Directors along with the CEO and CFO of Marel Food Systems hf, from left: Margrét Jónsdóttir, Helgi Magnússon, Hörður Arnarson, CEO, Árni Oddur Þórðarson, Chairman, Friðrik Jóhannsson, Arnar Þór Másson, and Erik Kaman, CFO. Missing from photo: Lars Grundtvig.

Corporate governance

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

Insider Information

In accordance with statutory law, the Company complies with the rules of the Financial Supervisory Authority on the handling of inside information and insider trading. The functions and responsibilities of an appointed Compliance Officer, who monitors and supervises the handling of insider information, is part thereof.

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

Shareholders' meetings

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

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

The Marel Food Systems AGM is held before the end of August each year; in 2009 it is scheduled for 10 March. The AGM is advertised publicly with at least one-week's notice, and details about the meeting are available on the Company's website, www.marel.com, and at the website of the OMX Nordic Exchange in Iceland, www.omxgroup.com/nordicexchange.

Board of Directors

The Company's Board of Directors is the supreme authority in the affairs of the Company between shareholders´ meetings.

The Board of Directors is elected by shareholders at the AGM for a term of one year. The Board currently comprises six members who were all re-elected for a term of one year at the Company's AGM on 8 March 2008.

Compensation to the Board of Directors is decided upon at the AGM. For 2008, the agreed monthly remuneration was EUR 2,000 for each Board member and EUR 6,000 for the Chairman of the Board.

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

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

Board meetings shall normally be called on a monthly basis. Members of the Board elect a Chairman and Vice-Chairman from their own ranks. The signature of the Board is required to bind the Company. The Company signature is written by the Board and only the Board may grant powers of procurement.

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

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

Comply or explain

According to the Guidelines, it is preferable that the majority of the Directors are independent. In 2008, the Board consisted of two independent members and four non-independent members. The Board of Directors complied with the Guidelines in all other respects during the year.

Board meetings

The Board of Directors convened 12 times in 2008. The Board is provided with a report in advance of each Board meeting and, in addition, a comprehensive monthly report of Marel Food Systems' financial performance, operations and market conditions. Board members are informed about all significant matters immediately.

A Board member shall only act according to his own conviction, not on the instructions of those electing him. Immediately following the annual general meeting each year, the Board shall allocate responsibilities among its members.

Together, the Board members bring a valuable and balanced range of experience as they have all held or hold senior positions in professional and public life. Profiles of the Board members are listed on pages 16-17.

Chief Executive Officer

The Board of Directors appoints a Chief Executive Officer (CEO) and decides the terms of his employment. The CEO is responsible for daily operations in accordance with those directives that he has been given by the Board, or by the Articles of Association. Daily operations do not include matters that are irregular or of major significance. The CEO shall ensure that the accounts and finances conform to law and accepted accounting standards, and that Company assets are handled in a reliable manner. Furthermore, the CEO hires and discharges all company employees. The Chief Executive Officer is obligated to abide by all Board directives. He is required to provide the Board of Directors and auditors with all information requested.

Board committees

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

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

Auditors and accounting

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

PriceWaterhouseCoopers hf. was elected as the Company's auditor at the AGM on 8 March 2007. Auditors on its behalf are Þórir Ólafsson, State Authorized Public Accountant, and Kristinn Freyr Kristinsson, State Authorized Public Accountant. They have audited and signed without reservation Marel's consolidated financial statements for the years 2007 and 2008.

The rapidly expanding protein segment of the industry, in which Marel Food Systems operates, has been growing at an average annual rate of 5-6% for the past 15 years and proteins play an increasingly large role in the global diet.

Opportunities and outlook

Market outlook

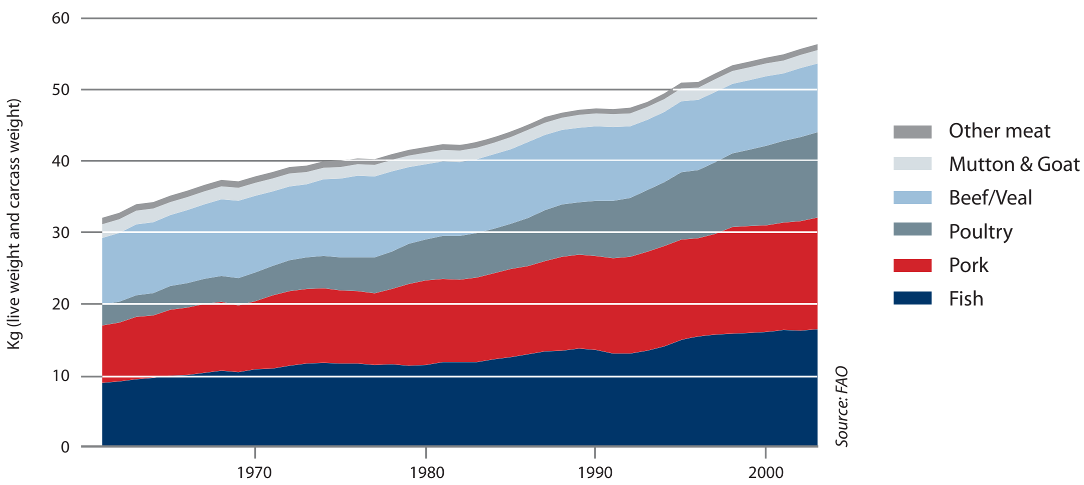
The international financial crisis and the slowdown of the global economy have affected all industries. Compared to most others, and despite a reduction in sales in the fourth quarter of 2008, the food processing industry is well placed to weather the storm. The rapidly expanding protein segment of the industry, in which Marel Food Systems operates, has been growing at an average annual rate of 5-6% for the past 15 years and proteins play an increasingly large role in the global diet. Moreover, the industry has always adapted quickly to changes in the environment and the economic downturn will create opportunities for the industry in the months ahead due to changes in consumer habits, a key driver in the sale of food processing equipment.

Consumer habits have already begun to change and will continue to do so.

- The consumption of less expensive proteins, primarily poultry, is likely to continue to increase. This trend was already noticeable before the advent of the financial crisis.
- Consumers are seeking out convenience food to a greater degree than before, both in established and emerging markets. They are eating out less in restaurants and shopping more for less expensive "ready-made meals".

Both these trends benefit the industry in general and Marel Food Systems in particular since they call for the development of ever more efficient processing equipment and systems for the two industry segments where Marel Food Systems is the global leader – the processing of poultry and fish, the two most cost-effective proteins.

Global consumption of fish and meat per capita



In the first half of 2008, the margins reaped by food processors in established markets were in many cases at a record low. The rapid rise of oil prices led to an increase in ethanol production, which in turn caused speculation in the corn market. The net effect was record high feed prices, which severely squeezed margins. When combined with the international credit crunch, these developments hampered the ability of producers to invest in equipment and systems.

Nevertheless, the company's valuation of the strong underlying growth in the industry remains unchanged.

Feed efficiency, grains required per gram of animal weight gain

Food	Feed efficiency
Fish	1.5
Chicken	2.0
Pork	3.1
Beef	8.3

Source: Goldman Sachs

Poultry

Developments in 2008

The economic crisis, combined with overproduction in the United States and Brazil – both among the leading poultry producing countries in the world – undermined the profitability of the poultry processing industry in 2008. The overproduction resulted in a drop in poultry prices, which caused difficulties for many producers in the second half of the year. It is expected that both countries will undertake aggressive export marketing, which may result in lower prices for poultry products globally.

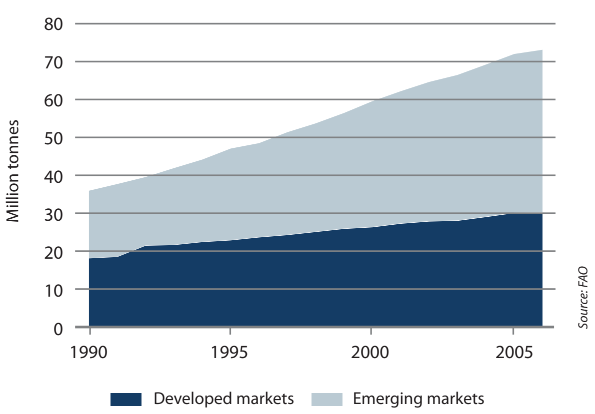
The situation in 2008 was not helped by the global increase in grain prices, which caused the cost of live birds to go up by 30% - costs that were passed on to the trade. In addition, flooding in the Midwest of the United States and the debate on genetically modified organisms (GMO) led to a temporary increase in the price of corn to $300 per metric ton, resulting in losses for most poultry processors when these costs were not passed on to the trade.

The outlook for 2009 is more favourable with poultry processors in the United States expecting greater profitability in the second half of the year. There are clear indications, with a 4% growth in poultry consumption worldwide in 2008, that consumers are shifting their protein consumption to poultry and away from more expensive proteins like pork and beef. Poultry has a more favourable feed conversion ratio than other animal proteins and is therefore less expensive.

For Marel Food Systems, despite lower sales in the fourth quarter compared to the previous year, the year as a whole exceeded expectations and was the company's – and Stork Food Systems' – best ever in terms of sales. This was mainly attributable to the year beginning with a huge forward load, which was gradually reduced over the course of the year to a normal level. The company enjoyed a significant growth in market share, particularly in Europe, with efforts being made to increase market share in North America as well. A promising foothold has also been established in China.

Marel SensorX automatic bone detection system

Global chicken production 1990-2006



Trends and opportunities

As in most segments of the food processing industry, there is a push in the poultry industry to increase efficiency and reduce costs, as well as to extend shelf life of products for the fresh market. Other noticeable developments include:

- an effort to reduce the reliance on labour with, for example, fixed-weight packing using robot batching, which was introduced in 2008 with good results and should be a trendsetter for the future;
- a strong trend toward improving animal welfare and conditions in live bird transport, stunning and killing, which includes stricter hygiene requirements for live bird transport in containers, modules and crates; and
- a greater emphasis on food safety, related in part to a breakthrough led by Marel Food Systems in the sale of bone detection systems during the course of 2008. This technology has raised the bar for acceptable bone content in poultry products and is heavily supported by many international fast food chains such as McDonald's and Subway's.

In addition, there is also a greater emphasis in the industry on the production of fresh value-added products, automatic deboning of front halves and legs/thighs, in line high speed processing (including electrostimulation and maturation) and giblet harvesting.

Focus in 2009

Marel and Stork Food Systems have been successful in responding to prevailing trends in the poultry industry with innovations and expanded product offerings that satisfy the needs of customers. United, they are in an even better position to do so.

It is foreseeable that in the near future, poultry processors will need to diversify their product portfolios, especially for fresh value added products, and increase efficiency in order to be able to obtain the higher margins that they expect. The industry recognizes that this requires a higher level of automation with systems that can maximize yield even at higher line speeds. There is also a growing acceptance of the importance of information technology in managing the production process in an efficient and profitable way. Marel Food Systems has an opportunity to be at the forefront in driving these developments with, for example, its labour-saving robot technology and highly advanced Innova production management software system linked with the Stork PDS processing plant control system.

Following the acquisition of Stork Food Systems, Marel Food Systems is now the leading global provider of equipment and systems to the poultry processing industry. In Europe and South America, the company is the leader in primary and secondary processing. In North America, it ranks first in primary processing and the 'back end' of secondary processing, with weighing and batching systems. Plans are underway to reinforce the company's network in Asia, which will strengthen the market position in this region.

Fish

Developments in 2008

Over the past few years, the fish processing industry has benefitted from the introduction of new and innovative processing equipment which has contributed to raising production and slaughter volumes and to providing a more steady supply of products to the market. It has also helped to reduce production costs. Spurred on by the increase in fish consumption globally, easy access to investment capital and stiffening competition in both processing and sales, producers have regularly upgraded their processing equipment and systems.

Although there were obstacles to contend with in 2008 – the international financial crisis, disease and other biological challenges – processors continued to call for a higher level of automation and advancements in the form of integrated systems ("from catch to plate").

Overall, sales to the fish industry were virtually on budget for the year 2008. The year also saw the company enter new markets in Asia, Oceania, and southern and south-eastern Europe.

Trends and opportunities

The financial crisis has increased awareness among fish processors of the need to streamline and improve the efficiency of their operations. They are more focused than before on maximizing the value extracted from the raw material, improving the yield and efficiency of all stages of the production process, and ensuring a better quality product and longer shelf life.

Globalisation has made distant markets such as China and South America more accessible to fish processors. It has also created opportunities for companies like Marel Food Systems that are at the forefront of innovation in the development of chilling technology, which makes such long-haul transport possible, as well as production management software that ensures full traceability of the raw material.

Focus in 2009

In 2009, Marel Food Systems' emphasis will be on helping processors to minimize product handling, improve quality, extend shelf life and lower production costs. In particular, the company will be focusing on further development of end-of-line solutions, portioning and packing systems, and robot-loading into trays and freezers.

Marel Food Systems ranks first globally in equipment and integrated systems for the fish processing industry.

The company is a single source supplier with products to fulfil any need and that span the entire production process. As such, and with its devotion to innovation and knowledge, the company is well placed to maintain and build on its position as industry leader.

Wild whitefish:

Overfishing of wild fish stocks have led to reduced catch quotas. The opportunities for the wild fish industry lie therefore mainly in improving efficiency and yield. Shelf-life has also gained greater importance with the trend toward increased consumption of fresh wild fish. This has raised the demand for innovative solutions that shorten processing times, and cooling technology that stores the raw material at the right temperature during transport.

Farmed whitefish:

The reduction in quotas for wild fish opens up opportunities in aquaculture of traditional species like Tilapia, Catfish and Seabass. Cod farming – the newest frontier in aquaculture – is also considered by many to have great potential. Marel Food Systems has taken advantage of the extensive experience and expertise gained in serving wild fish processor and has transferred that knowledge to the processing of farmed species.

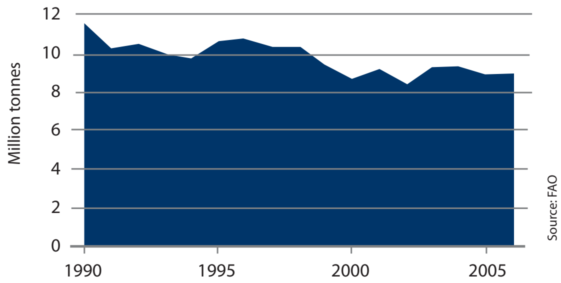
Salmon:

Although farmed salmon is vulnerable to disease, such threats and other market fluctuations generally have not had much impact on Marel Food Systems' sales due to the global nature of the company's operations. Moreover, the threat of disease provides an opportunity for the company to promote the quality control and traceability systems that it excels at.

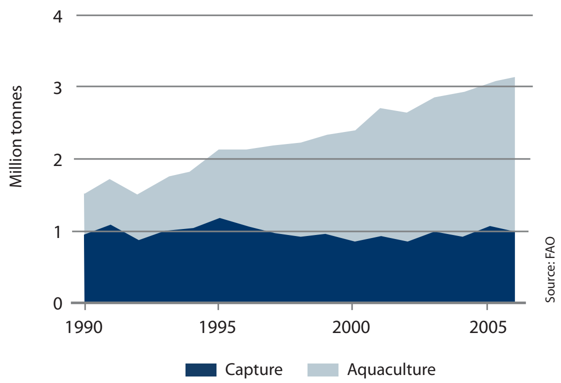
Today, Marel Food Systems is the only equipment manufacturer that can provide equipment for all phases of modern salmon processing. The company's range of in-line equipment offers a seamless flow from reception of raw material all the way through to packaging of the final product, with less manual product handling resulting in a higher quality product.

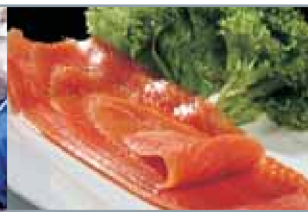
Marel Food Systems annual international Salmon Show, held for the eighth time in February 2009 at the company's production site in Nørresundby, Denmark, has grown to become the premier forum in the world for demonstrations of the latest and most outstanding equipment available for salmon processing. It is the place where decision makers from the global salmon industry meet to discuss the latest trends and expectations.

Global cod, hake and haddock production 1990-2006



Global salmon production 1990-2006





Meat

Developments in 2008

In response to the record high feed prices in the first half of 2008, large meat producers responded by cutting down the number of live stock in order to contain feed costs and bolster meat prices. The intended effects of these actions began to have a noticeable effect in the second half of the year, with oil and feed prices dropping and meat prices rebounding, with a resulting recovery of margins.

However, these positive developments were undercut by the international credit crunch and the lack of availability of investment capital. Moreover, in the United States, the recession has resulted in a drop in the consumption of meat and the demand for food services. The European market is experiencing a similar effect, while developments in emerging markets have been more positive, where added investment in automation is required to meet the need for more streamlined production processes and higher margins.

While 2008 started out in positive terms with regard to the sale of standard product lines, the sale of large projects in skinning and meat harvesting fell in the fourth quarter. The demand for spare parts and service, on the other hand, exceeded expectations for the year, a clear indication that customers had decided to postpone capital expenditures by extending the operational life of existing systems. The overall result for the year was below expectations.

Townsend 9000H heavy duty skinner

Trends and opportunities

Developments in 2008 have led to an even greater emphasis on cost reductions and higher margins, with three related trends emerging during the course of the year:

- Added value products: Retailers and food manufacturers are cooperating more closely than ever before on creating products designed for contemporary lifestyles, resulting in an explosion in the market for 'ready-made meals'.
- Reduction in labour costs: 'Automation' is the buzz-word in all segments of the industry, with a focus on minimizing the reliance on expensive and scarce labour in the production process.
- Food safety: In general, there is a greater focus on increasing hygiene and food safety throughout the industry.

The demand for greater automation in response to the shrinking labour supply clearly implies opportunities for providers of processing equipment. Moreover, the current economic conditions make yield improvements and increased efficiency more vital than ever before. There is also a strong demand for more hygienic design of processing equipment and the popularity of 'ready-made meals' means that packaging systems have become an increasingly important part of the value chain.

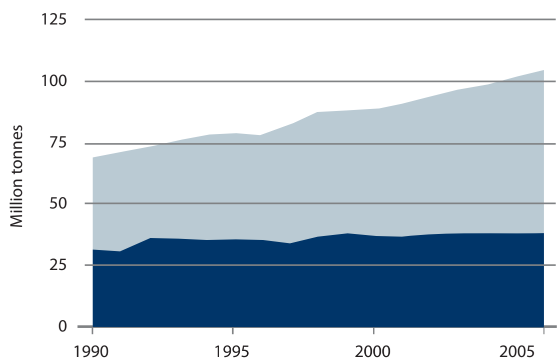
Opportunities are also plentiful in emerging markets like China, Brazil and Russia where the need for increased production capacity and efficiency is tangible. China, especially, is experiencing a rapid transformation from a wet to a centrally processed market, where a steep increase in automation is required to keep up with the high level of consumption.

Focus in 2009

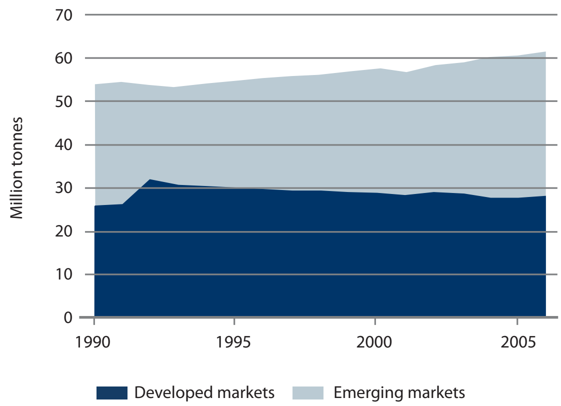
In the current environment, small and medium-sized producers generally have more flexibility to invest in upgrading their facilities than larger corporations. Marel Food Systems' focus in 2009 will therefore be on developing small to medium size projects centred on processing lines and stand-alone equipment. This strategy has already delivered positive results with the closure of two such projects in January with a lead time of less than four months.

United, Marel and Stork Food Systems have an increasingly strong market position in all phases of meat processing. The time is right to promote the company's position as a one-stop-shop for everything from stand-alone machines to complete integrated systems, supported by a single software platform and maintained by one global service organisation.

Global pork production 1990-2006



Global beef production 1990-2006



Further processing

Developments in 2008

Like other industry segments, the further processing market felt the effects of the financial crisis on sales in the second half of 2008. The lack of access to financing meant that customers had difficulty in funding large projects and as a result, performance in 2008 was moderate.

Nevertheless, the convenience food market has been developing strongly, with annual growth at a rate of 7-8%, and is expected to continue to grow. Food processors are developing an increasing variety of convenience products that have found favour among consumers. This segment has also begun to develop in emerging markets.

The year also saw some very positive developments with regard to the performance of individual products for further processing, with the notable success of Stork's RevoPortioner, a low pressure portioner, which the company will build on in 2009.

Trends and opportunities

The slowdown of the world economy has further increased the popularity of affordable convenience food, providing opportunities in the area of further processing. Rather than dine out at restaurants, consumers are increasingly demanding 'ready-made meals'. This is a trend that the company can capitalize on, for example with Stork Food Systems' range of sausage production equipment and forming and coating technology.

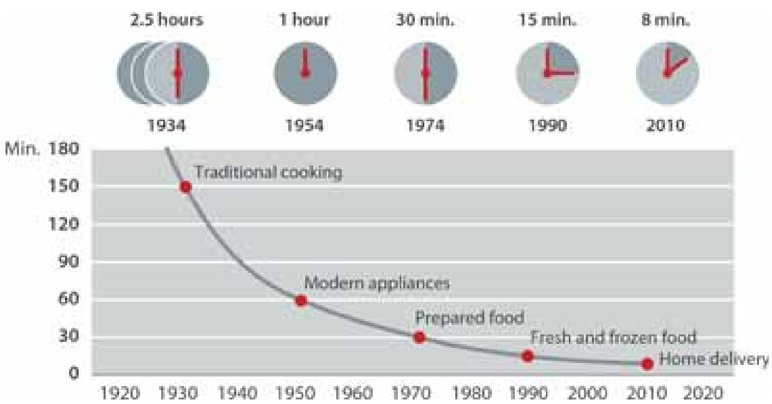
Another notable trend in the industry is the emphasis on portion control for whole muscle meat. Processors want to be able to produce consistent products from whole muscle meat, with portions of exactly the same weight in order to minimize giveaway. This is a task that the RevoPortioner, so successful in 2008, excels at – producing portioned products with consistent weights.

There is also a trend toward more formed and portioned products with a loose meat structure.

Focus in 2009

The convenience food market is expected to perform better than most other industry segments in the early part of the year. Marel Food Systems' goal is to capitalize on the wide range of systems that it offers for this market, including in portioning and forming.

With the organizational changes being implemented at Stork Food Systems, with all further processing activities being joined under a Further Processing Business Unit, the company has a strong and comprehensive product range to present to the market in 2009.



Changes in eating habits support the company's growth

Other

Food and Dairy

The Stork Food & Dairy Systems Group has for many years been a frontrunner in the development and production of critical components for the production of extended shelf life products (ESL) and shelf stable food products for the dairy and high-end juice and food industry. The company is one of the market leaders in aseptic processing and filling lines for plastic bottles in the dairy and juice.

In 2007, Stork Food & Dairy Systems Group announced a change in strategy to be implemented in 2008-2009. The focus of the company is being directed at a more limited number of product groups and its organisation is being adjusted to bring it in line with the results of the modularisation and standardisation of products and processes. As a result of these changes, the order intake and gross margin have shown a significant increase in 2008 compared to 2007. Once the changes are finalised at the end of 2009, Stork Food & Dairy Systems Group should be well placed to exploit the expected future growth in the food & dairy market.

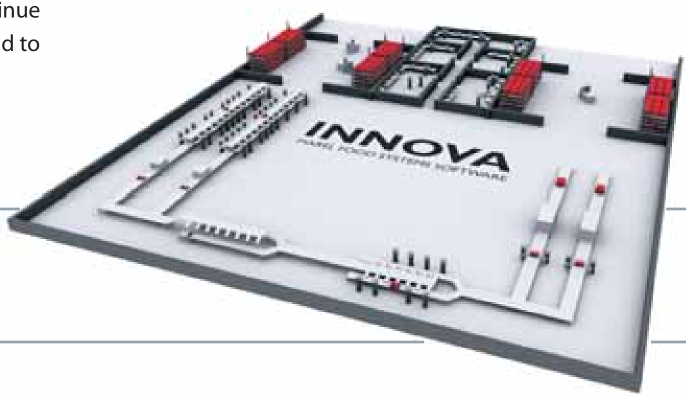
Other food industry segments

In addition to fish, poultry and meat, many of Marel Food Systems' products and systems are also applicable to the processing of other foods, including vegetables, fruit and cheese. This includes equipment for weighing, batching, slicing, portioning and packing. The company will continue to explore opportunities in these industry segments and to develop its product offerings in this regard.

Software

In early 2008, Marel Food Systems launched Innova, the first joint product of the group as a whole. Innova, the company's new intelligent production management software, is a key component of the integrated processing systems that the company offers and indeed a cornerstone of its product offering. Innova is compatible with the company's entire range of products and brings production managers an unrivalled degree of control and oversight over their entire production process. It is the most fully integrated IT solution available in the food processing industry and allows producers to monitor all key performance indicators, such as yield and throughput, in real time.

Already, over 150 Innova systems have been installed in meat, poultry, fish and cheese processing facilities in a total of 24 countries. The company's objective is to establish Innova as the world's leading production management software for food processing.



When Marel Food Systems acquired Stork Food Systems in 2008, the two long-standing partners joined together to create one of the strongest innovation companies in the history of the food machinery industry.

Business operations

Product development

A culture of innovation is the cornerstone of Marel Food Systems' global leadership in the development of advanced equipment for the food processing industry. The innovation process is inspired by the vision of the founders and the desire to constantly seek new ways to increase productivity and create value for the customer – "to expand the boundaries of food processing performance".

Marel Food Systems employs a team of highly qualified scientists and technicians in the field of engineering and food technology. The company has fostered a strong relationship with the scientific community through participation in international research projects, by welcoming research guests and by providing scientists with research facilities for special projects that are applicable to the company's fields of operation.

Return on innovation

When Marel Food Systems acquired Stork Food Systems in 2008, the two long-standing partners joined together to create one of the strongest innovation companies in the history of the food machinery industry. With a global development team of over 400 engineers and an annual investment target of 4-6% of sales in research and development, the company's "Return on Innovation" is high. Products released in the past three years account for about a third of the company's revenues.

The two companies have enjoyed great success in product development over the years. Their innovation process has the uncompromising goal of supporting Marel Food Systems' vision to be the leading supplier of products, technologies and services to the food processing industry. The integration process provides an opportunity to benchmark different approaches and to build a future organization based on the "Best of Both" concept. This work will begin in 2009.

Product development

Over the last decade, both Marel and Stork have developed product development processes to facilitate a continuous flow of unique food technology products. Product teams form a framework that ensures continuous improvement of key products, generation after generation. The general aim in the product development process is to develop standard modules that also have smart configuration capabilities for customer specific applications.

Together Marel and Stork have development centres in Denmark, the Netherlands and the United States. The development teams of Scanvaegt in Denmark and Marel ehf. in Iceland were integrated in 2008 and three new product teams were established.

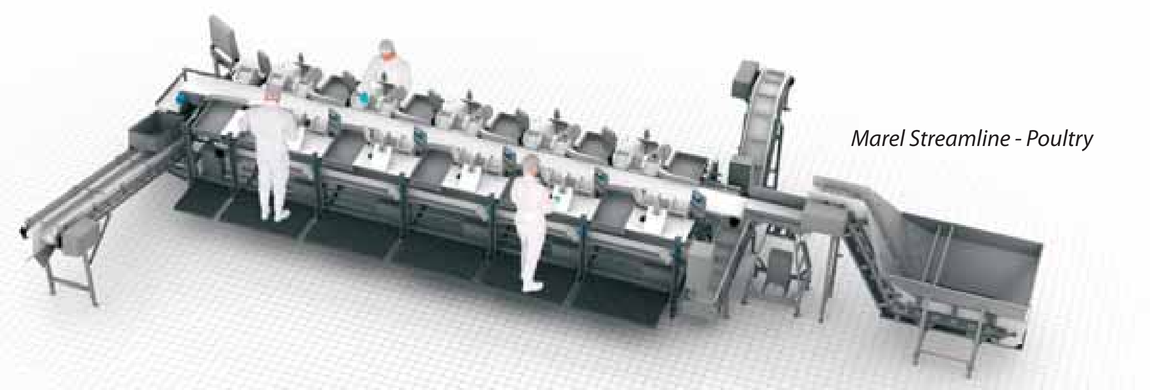
Patents and trademarks

Patent protection is vital to Marel Food Systems. In 2008, Marel and Stork applied for 16 new patents. Together the companies have more than 170 granted patents.

New products

Marel and Stork introduced 47 new products in 2008 under the brand names of Carnitech, Dantech, AEW, Delford, Marel, Scanvaegt, Stork and Townsend. In addition, 10 new Innova software modules were introduced. Since its debut in 2007, over 150 Innova software systems have now been deployed.

Scanvaegt RoboBatcher



Marel Streamline - Poultry

The following are among the new products:

Marel Streamline
A new flowline concept for meat products. Compact and very flexible, easy to clean and attractive to small and medium sized customers.

AEW Intelligent Portion Loader (IPL)
A new generation of the IPL robot loader was introduced in a more hygienic and compact frame. A highly compact dual version is now available as well.

Delford 9060 series Weigh Price Labeller
The first machine in a new generation of the Delford Weigh Price Labellers was introduced in 2008. The new series adds more modularity and a touch screen user interface.

Stork MasterFormer
A no-pressure forming machine for delicate meat masses like "steak tartare".

Stork RevoPortioner mark3
A revolutionary new low pressure forming technology, now approved for McDonalds hamburger production.

Townsend QX- Cooked/Smoked link system
A new fully automated concept for production of cook-in-the-pack sausages.

Townsend Loaders
LD 51 sausage loader and LD 54 tray loaders for cooked and fresh products respectively with very high hygiene demands.

Townsend Bacon injector IN
Brand new version with improved cost of ownership and brine usage.

Stork 12,000 broilers per hour line
Upgrade and development of a large number of machines to be able to run the poultry processing line at 12,000 birds per hour instead of the earlier 10,500 birds per hour.

Stork ACM-NT cutup and FHF-XB deboning systems
Six new modules were introduced to increase yields and/or produce new unique chicken end products like the "wingstick". These modules can be retrofitted in the large existing installed base as well.

Dantech Superflow Easyclean Freezer
The Superflow® Easyclean Freezer incorporates patented technology which provides the user with unparalleled hygiene standards and product quality. With a simple change in air plates, the freezer is easily adaptable for both high speed vertical impingement airflow called Superflow® and a conventional high speed horizontal airflow called Arcticflow®.

Scanvaegt RoboBatcher
The new Scanvaegt RoboBatcher is a leap forward in technology. Combining weighing, batching and automatic loading of poultry fillets using industrial robots it saves both space and operational costs.

Carnitech CT 2041 Microwave Tempering System
For controlled tempering of meat blocks with minimal drip loss. The Carnitech tempering system eliminates the need for tempering rooms and racks, while saving precious time and labour.

AEW Intelligent Portion Loader (IPL)

Stork ACM-NT cutup and FHF-XB deboning systems

Townsend QX- Cooked/Smoked link system

Stork RevoPortioner mark3

Delford 9060 series Weigh Price Labeller

Manufacturing

Marel Food Systems strives for operational excellence. It is our goal to provide "best in class" manufacturing, capable of competing with anyone on the basis of quality and flexibility, to create a competitive advantage for the company.

Best of both

The integration of Marel and Stork Food Systems provides an opportunity to combine best practices from both to further strengthen the company's manufacturing process – by combining, for example, Stork's focus on core production technologies and flexibility through outsourcing, with Marel's emphasis on vertical integration and capacity.

At year end 2008, the company had a combined 16 production sites in eight locations employing a total of 1,400. Most of the company's products are manufactured in Denmark, Iceland, the Netherlands, Slovakia, the United Kingdom and the United States, with smaller production facilities in Brazil and Singapore.

Continuous improvement

One of the priorities for 2009 will be to adjust the capacity at each production location while at the same time maintaining a level of flexibility to meet order intake. Continuous improvement programmes will also be implemented at each site. The manufacturing process will contribute to another key priority for 2009, the reduction of working capital, by implementing ambitious targets to reduce inventories during the course of the year.

Marel Food Systems began the year 2009 with 15% fewer employees in manufacturing than the year before. In addition to downsizing, labour costs have been reduced significantly through a reduction in overtime and by insourcing tasks to fully utilise the current production capacity.

Marel Food Systems in Nitra

New plant opens in Slovakia

The production unit in Nitra, Slovakia, which began operations in 2005, was moved to a new 9,000 sq. metre facility in February 2008 that currently employs approximately 100 skilled workers. At full capacity, the plant can accommodate 300 employees, in addition to which the plot of land that the plant stands on leaves plenty of space to accommodate a future extension, up to double the current plant size.

The manufacturing of various parts and standardized products has been moved from other units to the new plant in Nitra, which promises to become a cornerstone of Marel Food Systems' production for years to come and is the strongest contender to house future growth in production.

Integration in procurement

In the related field of procurement, a project to integrate procedures and processes between Marel and Stork Food Systems has been initiated. The long-term goal is to control costs by integrating procurement and product development processes and by maturing the procurement population. Immediate benefits of the project are cost reductions through new corporate contracts with key suppliers, and a better information flow with the implementation of new IT tools.

Service

Service is increasingly providing real "value added" to the company's operations. The traditional industry view of service as a cost centre no longer applies. Both customers and employees have gradually come to understand what a driving force a good service organisation can be.

As the integration of Marel and Stork Food Systems proceeds, the company is developing one common service philosophy based on a view of the company as a service-oriented company rather than a traditional product-oriented company. The mindset on which this new philosophy is based can best be described with two concepts: "Think global, act local" and "Big enough to cope, small enough to care".

The main priority in 2009, will be to define and combine the "best of both" companies into one strong and common global service organisation, with a more consistent level of service across the different business units. The goal is to be able to provide fast and competent service and support at the local level to our customers worldwide, no matter where they are.

The Marel Food Systems service organization

The service organisation of Marel Food Systems consists of 25 sales and service units (SSU) worldwide, and one additional service centre in Denmark, that serve as the first level of support to customers worldwide. If the concerns of the customer are beyond the capacity of the SSU to resolve, the issue is forwarded to a team of service specialists at the relevant Business Unit (BU). Today, Marel Food Systems employs approximately 400 people in the area of service, 300 at the SSUs and 100 at the BUs, who perform an average of 1,000 customer visits daily, providing the organisation with an impressive fountain of knowledge and understanding of customer demands and requirements.

The Stork Food Systems service organization

Stork Food Systems is made up of three Business Units – BU Poultry, BU Fresh Meat Systems and BU Further Processing. BU Poultry has perhaps the most fully developed service organisation and relationship management system, with service area managers who visit the company's key customers on a regular basis. The three BU service organisations employ a total of 225 people, located in the Netherlands, the United States and Brazil. They are supported by nine Sales & Service offices and a network of agents worldwide.

The service organisation of the future

Service will be undoubtedly be one of the main drivers of Marel Food Systems' business in the future. With consolidation the name of the game in the food processing industry, small and medium size production facilities are being replaced by large production plants that belong to even larger international organizations. The focus is increasingly on achieving economies of scale and greater efficiency in production.

The service organisation of the future needs, therefore, to have the capacity to cope with Key Account Management (KAM) and to be able to ensure that systems that the company provides, and indeed the whole production process, are always performing at an optimal level. To do that, the organisation has to be able to monitor the systems on a continuous basis through, for example, remote monitoring, on-line monitoring of yield and output, preventive maintenance schemes and other value-based services. We need to provide the customer with more value than just the equipment itself.

This kind of operation requires a close relationship between supplier and customer. The service components that Marel and Stork Food Systems have in place provide the company with an enormous competitive advantage in this regard, which will contribute to pushing the volume of sales even further in the future.

Sales and marketing

Together, Marel and Stork Food Systems have more than 100 distribution channels for their products worldwide, comprising a network of subsidiaries, sales and service offices and agents worldwide.

Sales in 2008

Sales in the first three quarters of 2008 were quite strong, with a pro forma increase of 11%, compared to the year before. However, when the international financial crisis struck with full force in October 2008, sales slowed with a significant drop in orders received. Orders increased again in December, compared with the previous month, and the final result was a pro forma increase of 4.4% for the whole year.

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

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

Presently, the company operates two different sales organizations.

Marel Food Systems sales organization

Marel Food Systems has a large global network of 25 subsidiary companies, called Sales and Service Units (SSUs), as well as some 40 distributors and agents, who sell standard products and service the company's customers worldwide. Generally, only large scale projects are sold directly from the main business units. One new SSU was established in 2008, in Romania.

Marel Food Systems employs approximately 240 people in sales and marketing globally, thereof approximately 140 at the SSUs and 100 at the BUs.

Stork Food Systems sales organization

A higher percentage of Stork Food Systems' sales are large projects. Most of the company's sales are handled centrally, with the assistance of a network of subsidiaries and branch offices in 15 countries and agents worldwide.

Stork Food Systems employs approximately 205 people in sales and marketing globally.

International exhibitions

In 2008, Marel Food Systems and Stork Food Systems each participated in close to 40 exhibitions, trade shows and in-house seminars worldwide, including all the major international exhibitions for the seafood, poultry and meat industries. Among the key events attended in 2008 were the International Poultry Exposition in Atlanta and the European Seafood Show in Brussels. The focus at all these events was on promoting Marel Food Systems as an innovative single-source supplier with product offerings to meet the needs of processors in all industries.

A welcome sign of the progress of the integration process was the decision to have Marel and Stork Food Systems join together at a single stand at the International Poultry Exhibition (IPE) in Atlanta at the end of January 2009. The joint presence provided an opportunity to display the natural fit and complementarity of the product offerings of the two companies.

Marketing

Together, Marel Food Systems and Stork Food Systems operate a global and multinational marketing department with members based in eight locations. The marketing activities range from micro and macro analysis of the company's markets to the production of marketing material – including, for example, newsletters, brochures, videos, the company's website and advertisements – organizing the company's participation in global marketing events, including trade shows and exhibitions, and media relations. In addition to the global marketing department, virtually all of the 25 SSUs are staffed with marketing personnel who are responsible for local marketing activities.

Toward one company

The focus of integration activities in sales and marketing in 2008 was primarily directed at integration within Marel Food Systems. Harmonization of the Marel and Stork Food Systems' sales processes will be addressed in the future.

In 2009, the integration of sales activities within Marel Food Systems will continue with a particular emphasis on fully utilizing the company's sales network for products from all of the company's brands and on developing a stronger industry focus in sales. With the planned merger of Marel, Carnitech and AEW Delford in 2009, a priority will also be to present the company as a one-stop-shop toward customers.

We are in a unique position to serve customers all over the world

Human resources

Following the acquisition of Stork Food Systems, the company employs around 3,700 people in some 30 countries around the world. The largest number is located in the Netherlands, followed by Denmark and then Iceland. Roughly 92% are located in Europe and North America.

The company's human resources mission is to employ competent employees and to provide a supportive, ambitious work environment that motivates and encourages them to make the company vision their own. To do that, we strive to provide excellent training, opportunities for further education and job development, and to foster a spirit of co-operation and teamwork throughout the company. We recognise the importance of respecting cultural diversity, while at the same time strengthening the values that are shared throughout the company. Open and honest communications and a healthy work-life balance also help to maintain a creative and innovative work environment.

Assembly of poultry processing equipment at Stork Food Systems in Boxmeer

The best of both in 2009

As the integration of Marel and Stork Food Systems proceeds in 2009, human resources management will be working together, with "best of both" as the unifying slogan, to identify and celebrate the strengths that each company brings to bear in molding a common HR mission. This work will establish the foundation for joint strategies and policies, while taking into account local work laws and cultural differences as required.

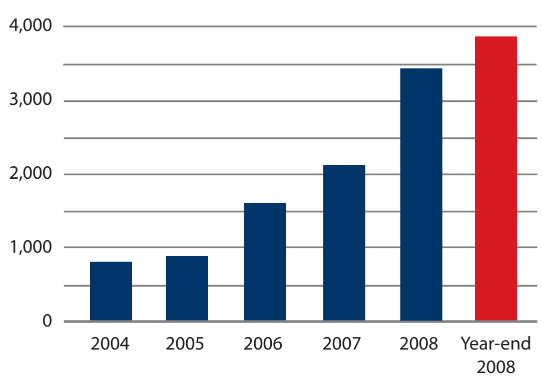
Major projects in the HR field will also include management development, supporting the integration process and the streamlining of the organization in general, and sharpening talent management processes and reviews.

Marel and Stork: a good cultural fit

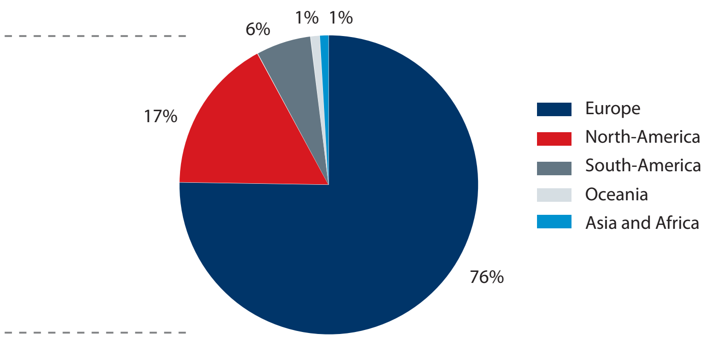
The work cultures of Marel and Stork Food Systems are similar in many ways. When asked informally what they value about their jobs, employees of the two companies often mention similar issues: being able to work independently, flexibility, little hierarchy, trust in management, feeling valued, a good work environment, a strong company culture, and personal relationships, to name a few. The employees are proud of the organisation and its products.

Together, we will build on the strong foundation in place and continue to strive to be the employer of choice.

Number of employees, average per year



Number of employees by continent at the end of year 2008



Marel Food Systems achieved the growth target announced at the beginning of 2006 – to triple turnover over the following 3-5 years – in a much shorter period of time than originally projected. The company has now entered the second phase of the growth strategy wherein the focus is directed at internal growth and increased profitability.

Development

Acquisitions and divestments

On 8 May 2008, Marel Food Systems' acquisition of Stork Food Systems took effect after European competition authorities had approved the deal without reservations on 21 April. An agreement on the acquisition had been announced in November 2007 following approximately two years of negotiations. The acquisition price was EUR 415 million on a debt and cash-free basis.

Marel Food Systems and Stork Food Systems had cooperated closely on a number of large scale projects during the past decade. United, they are now the leading provider of advanced equipment and systems to the food processing industry in the world.

When the acquisition took effect, a period of rapid external growth was concluded following three strategic acquisitions in the preceding two years. Marel Food Systems had achieved the growth target announced at the beginning of 2006 – to triple turnover over the following 3-5 years – in a much shorter period of time than originally projected. The company has now entered the second phase of the growth strategy wherein the focus is directed at internal growth and increased profitability.

There were three other acquisitions and divestments announced in 2008. At the beginning of the year, two bolt-on acquisitions were completed. In January, it was announced that Carnitech US, subsidiary of Marel Food Systems in Seattle, the United States, had acquired Gunnar Electronics to strengthen the company's services to the fishing industry in North America. Gunnar Electronics had for many years been Marel hf.'s representative in Seattle.

Shortly thereafter, in February, Marel Food Systems acquired the Norwegian software company Datadesign, which had been an important strategic partner for the past ten years. Software products from Datadesign are used by a number of Marel Food Systems' customers internationally. Approximately 30 customers use Scanfisk, Datadesign's software packing system for salmon, in addition to which 20 customers in the meat and poultry industries use other Datadesign software systems. The acquisition strengthened Marel Food System's portfolio of software solutions and signalled the company's strong commitment to the Norwegian food processing industry.

In an effort to sharpen the focus on the company's core activities, Marel Food Systems reached an agreement in August on the sale of its Scanvaegt Norfo sawing system division in Bornholm Denmark to Nienstedt G.m.b.H. Under the agreement, Nienstedt G.m.b.H will be offering customer support to the Norfo sawing system equipment already in service.

STORK®
Stork Food Systems

Milestones

1983	**Marel** is established in Reykjavik, Iceland, on 17 March 1983, initially to develop and manufacture scales and software for fish processing.
1997	Marel acquires Danish company **Carnitech**, which specializes in seafood and meat processing, and IQF freezing and tempering.
2005	Carnitech acquires the manufacturing company **Dantech** in Singapore, now Marel Food Systems Freezing and Temperature Division, thus becoming a leading global provider of freezing equipment.
2006	Carnitech's salmon division (now Carnitech Salmon, a subsidiary of Carnitech) acquires **CP Food Machinery** and **Geba**, leading brands in salmon processing. Marel acquires the assets and operations of **AEW Thurne** and **Delford Sortaweigh** in the UK, specialists in slicing, sawing, checkweighing, grading, weigh price labelling and robot portion loading technology. Marel acquires the Danish company **Scanvaegt**, renowned for its innovative weighing equipment, as well as its grading, batching and robot-loading technology.
2007	The group introduces a new name and a new corporate identity, **Marel Food Systems**.
2008	Marel Food Systems acquires **Stork Food Systems** in the Netherlands, a leading provider of systems for poultry, meat and dairy processing.

Integration

Integration activities

Following a period of rapid external growth through acquisitions since early 2006, Marel Food Systems shifted its focus in 2008 to internal growth and increased profitability driven by economies of scale and integration of the companies acquired in preceding years.

Three sets of integration programmes have been in process during the course of 2008:

- Within Marel Food Systems: integration of Marel, Scanvaegt, Carnitech and AEW Delford.
- Within Stork Food Systems: integration of Townsend and Stork with the introduction of a business unit structure for poultry, fresh meat systems and further processing.
- Between Marel and Stork Food Systems: integration based on an external focus on customer needs.

Integration within Marel Food Systems

In March 2008, a major step in the integration within Marel Food Systems was announced with the merger of Marel ehf. and Scanvaegt under the name of the former. Following the merger, the company is managed by the Marel ehf. management team, with a Site Manager located in Denmark.

The aim of the integration of the two companies was to enable the organisational structure to better support the company's product group units and to take advantage of the potential synergies between the two. A two-day strategy meeting was held in Denmark, with the participation of nearly 60 employees from Iceland and Denmark, under the theme of 'One company – Synergy – Value Creation'. The projects that emerged from the meeting centred on the development of unified policies, production strategies, processes, work procedures and cross training.

While the focus of the integration activities in 2008 was on internal issues and structure, in 2009 the focus will be redirected to external concerns. The main focus in the next phase of the process – the integration of Marel, Carnitech and AEW/Delford – is to present Marel Food Systems as one unified company towards the customer.

Integration within Stork Food Systems

In 2007, Stork Food Systems completed the acquisition of Nijal Technologie Alimentaire in France, a manufacturer of equipment for the processing of meat that complements well the equipment produced by Stork Food Systems. Nijal produces a full spectrum of equipment for high-speed production of shish kebabs, sandwiches, meatballs, formed value-added ground meat products and fresh sausages, as well as equipment for denesting trays and automatic tray loading.

It was decided that Nijal would be integrated with the offices of Stork Townsend and Stork Food Systems in France under the name of Stork Food Systems France (SFSF) and as a subsidiary of Stork Food Systems. The management team consists of representatives of all three offices. Following the restructuring of Stork Food Systems' operations into three industry-specific business units in 2009, SFSF continues to develop and manufacture innovative equipment as Nijal did before, mainly for the Further Processing business unit.

Integration between Marel Food Systems and Stork Food Systems

At the end of April 2008, the European Commission approved Marel Food Systems' acquisition of Stork Food Systems, which officially took effect on 8 May.
The integration process began immediately thereafter, under the slogan of "Best of Both", with the launch of several key projects, focusing on financial procedures, information systems, procurement, production and marketing activities.

The plan is to address the integration process in two phases. The first will focus on building the business with a view to achieving synergies in 1-3 years time; the second will focus on technologies and new opportunities in the longer term, in 3-7 years.

Complementary operations

Processing segment	Primary processing	Secondary processing	Further processing	Estimated market size
Poultry	STORK Stork Food Systems	marel food systems / STORK Stork Food Systems	STORK Stork Food Systems	
Meat	marel food systems	marel food systems / STORK Stork Food Systems	marel food systems / STORK Stork Food Systems	
Fish	marel food systems	marel food systems	marel food systems	
Estimated market size				€ 4,000 million

Pro forma financial results

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

Marel Food Systems' acquisition of Stork Food Systems took effect on 8 May 2008. The operations of Stork Food Systems are included in the company's accounts as of that date. The accounts also include one-time items related to the acquisition and a precautionary write-off, related to the uncertain value of the company's forward contracts in Icelandic kronas, following the collapse of the Icelandic banking system in October 2008. Finally, the accounts include the operations of Stork Food and Dairy Systems, which is not part of the company's core business.

In order to gain a more useful view of the financial performance in 2008, the following are the pro forma results of core business operations of the company, excluding one-time costs, compared to the pro forma results of core operations in the previous year.

Operating revenues and expenses

Marel Food Systems' operating revenue in 2008 amounted to EUR 613.3 million, compared to EUR 587.7 million in 2007, which is an increase of 4.4%.

Contribution margin of product sales was EUR 222.1 million, or 36.2% of sales, compared to 209.7 million or 35.7% of sales in 2007. Operating expenses other than the cost of goods sold totalled EUR 170.3 million, which corresponds to 27.8% of revenue compared to 28.6% for the previous year. Here, the cost of goods sold has been adjusted for a one-time charge of EUR 9.8 million in the fourth quarter due to purchase price allocation related to the acquisition of Stork Food Systems, of which EUR 7.5 is due to revaluation of inventory. This charge has no effect on the company´s cash flow.

Selling and marketing expenses decreased as percentage of sales from 13.7% for the previous year to 12.6% in 2008. Research and development expenses were 5.1% of sales, compared to 5.3% in 2007. Administrative expenses increased from 9.8% to 10.8%. Pro forma, the expenses were as follows:

As percentage of sales	2008	2007
Selling and marketing	12.6%	13.7%
Research and development	5.1%	5.3%
Administrative	10.8%	9.8%
Total	**28.5%**	**28.8%**

It should be taken into account that in the fourth quarter, the company initiated extensive restructuring, including a reduction of 300 in the number of employees outside Iceland. The resulting costs of EUR 4.0 million are fully expensed in 2008, mainly under administrative expenses.

Profit from operations (EBIT) in 2008, adjusted for one-off costs from restructuring and purchase price allocation from inventory to Costs of goods sold, was EUR 51.8 million, compared to EUR 41.5 million for the previous year. This amounts to 8.5% of sales, compared to 7.1% in 2007. Adjusted profit before depreciation (EBITDA) was EUR 71.4 million, compared to EUR 61.8 million in 2007. This amounts to 11.6% of sales, compared to 10.5% in 2007. Pro forma, profit was as follows:

	2008	2007
EBITDA in thousands of EUR	71,410	61,785
EBITDA as a % of sales	11.6%	10.5%
EBIT in thousands of EUR	47,807	41,489
EBIT as % of sales	7.8%	7.1%
Excluding cost due to restructuring	8.5%	7.1%

Marel Food Systems' operation in millions of EUR

	2008	2007	2006	2005	2004
Sales	613.3	587.7	208.7	129.0	112.3
Gross profit	222.1	209.7	68.8	43.6	41.0
EBITDA	71.4	61.8	15.7	14.8	16.5
EBIT	51.8	41.5	7.5	9.7	12.1

Note: Pro forma results for 2007 and 2008.

Excluding one-time costs, the pro forma profit from operations was 8.5%, compared to the company's goal for the year, which was 9%. The deviation can be attributed to developments during the fourth quarter, and specifically to the effects of the international financial crisis on the company's sales.

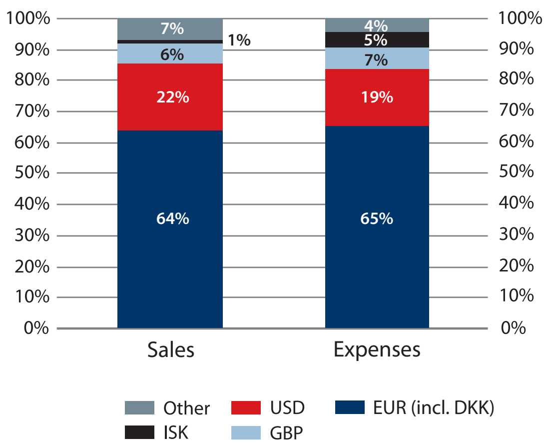
The company's expectations are that 2009 will have a slow start. However, Marel Food Systems' objective of achieving an operating profit (EBIT) of 10% remains unchanged. It is projected that this will be achieved in the second half of 2009. Our valuation of the strong underlying growth in the industry remains unchanged. The long-term prospects of the company are good.

Financial items

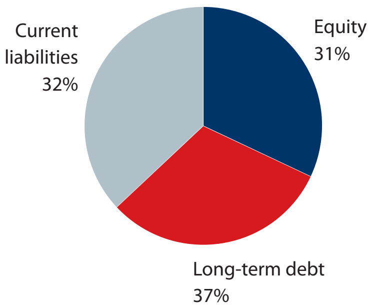
Net finance cost totalled EUR 32.2 million compared to EUR 7.1 million in the previous year. While a very small part of Marel Food Systems' business is conducted in Icelandic kronas, the company has in recent years entered into forward exchange rate contracts to hedge the costs related to its operations in Iceland, which are considerably higher than the revenues (6% and 1% respectively). Since the Icelandic banking crisis hit in October 2008, the market for foreign exchange transactions in Icelandic kronas has been inactive, creating uncertainty regarding the value of these forward contracts. For that reason, as a precaution, a write-off of EUR 17.8 million was made under cost of capital. As the krona plays a larger share in the company's expenses than its revenues, a weak krona should have a positive effect on the company's operations in 2009.

The company applies natural exchange rate hedging to the extent possible. Approximately 64% of the revenue was in Euros or pegged to the Euro through the Danish krone. These two currencies account as well for 65% of operating expenses. Sales and expenses, broken down by currency, are otherwise as follows:

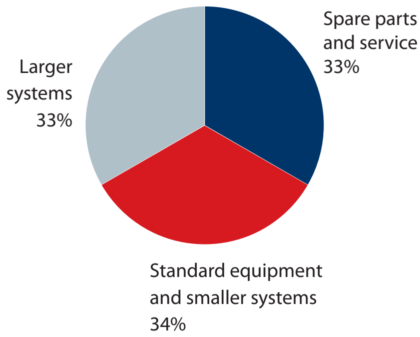
Currency breakdown in 2008



Capital structure on December 31, 2008



Sales in 2008 by category



Marel Food Systems' share in the operational profit of associated companies totalled EUR 0.5 million, compared to EUR 4.6 million in the previous year. The company's shares in LME Eignarhaldsfélag ehf were sold at the end of 2007.

Sales by category

Another important milestone in the 2008 operations is that following the acquisition of Stork, two-thirds of turnover comes from, on one hand, sales of spare parts and service and, on the other, from sales of standard equipment and smaller solutions. This is important as sales of these products and services are resilient towards economic downturns.

Assets and liabilities

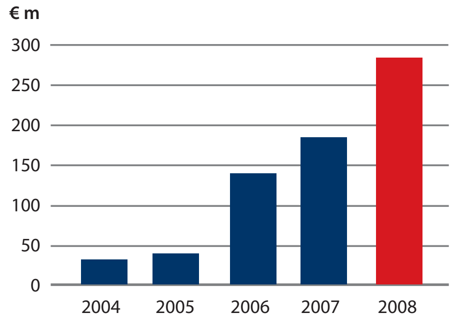
Total assets of the company at year end 2008 were entered at EUR 920.3 million, having increased by EUR 493.0 million, or 115.4%, from the end of 2007. This is mainly due to the acquisition of Stork Food Systems, which took effect on May 8. As required by IFRS standards, and in accordance with purchase price allocation procedures, the company's assets and liabilities were revalued at the time of the acquisition of Stork Food Systems, from the purchase price to the expected sales price. The result is a one-time debit entry of EUR 9.8 million, of which EUR 7.5 is due to revaluation of inventory, which has no effect on the company's cash flow.

Total liabilities at year end were EUR 632.0 million, an increase of EUR 386.5 million or 157.4%. Net interest bearing debt, i.e. interest bearing debt less net cash, amounts to EUR 379.4 million. The capital structure of the company at year end 2008 can be seen on the left.

Owner's equity

To conclude the financing of the acquisition of Stork Food Systems, having gained approval by the Board of Directors, Marel Food Systems increased its common shares by 156.44 million with a share offering that ended on the 6th of June 2008. Furthermore, following a meeting of the Board of Directors of Marel Food Systems on the 14th of October 2008, the company's share capital was increased by 20.07 million with a private placement successfully concluded on the 16th of October. The share offering and private placement collectively increased the company´s share capital by 43.7% and brought the total number of shares at year-end 2008 to 578.9 million. In addition, the company holds 1.4 million treasury shares. The equity ratio was 31.3% in 2008 compared to 42.5% at year-end 2007. The current ratio is 0.9 compared to 1.9 in 2007.

Equity in EUR million



Dividends

No dividends were paid in 2008 compared to a payment of EUR 824 thousand in the previous year. Furthermore, the Board of Directors suggests that no dividends be paid in 2009.

Implementation of IFRS

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and additional Icelandic disclosure requirements, and have been since 2005.

Consolidated financial statements for 2008

The Board of Directors' and CEO's Report

The consolidated financial statements for the year 2008 comprise the financial statements of Marel Food Systems hf (the Company) and its subsidiaries, together the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and additional Icelandic disclosure requirements.

The food systems division of Stork N.V. was acquired in May 2008. Through the acquisition Marel Food Systems will double its revenues and strengthen the platform for further internal growth and profitability. See note 29 for further information. The consolidated income statement does not reflect a full year sales and expenses at the same time as the balance sheet include all financing of past acquisitions. The proforma sales of core businesses including Stork Food Systems without Food & Dairy operation from the beginning of 2008 were EUR 613 million and adjusted EBIT EUR 51.9 million or 8.5% of sales.

A public offering of 156.4 million new shares in Marel Food Systems hf were sold for ISK 13,923 million in June and a private placement of 20.1 million new shares were sold for ISK 1,385 million in November 2008. The total number of the Company´s shares after the offering is 580,300,312.

Total sales of the Group according to the income statement were EUR 540 million in the year compared to EUR 289 million in the year 2007. Net loss of the Group amounted to EUR 8.4 million compared to profit of EUR 6.1 million in the preceding year. Assets of the Group amounted to EUR 920.3 million according to the balance sheet and shareholders' equity amounted to EUR 288.3 million at year-end.

The Company is in negotiations with the old Icelandic banks regarding closing of derivatives. The management's opinion is that these derivatives should be settled at default rate EUR/ISK 136.21. In the financial statements an accrual has been entered based on the year end rate EUR/ISK 169.44.

During the year an average of 3,497 employees were employed by the Group. Total wages and salaries for the Group amounted to EUR 182.1 million.

The number of shareholders in Marel Food Systems hf at year end 2008 was 1,836, a decrease of 202 during the year. Three shareholders had a holding interest of more than 10% in the company, Eyrir Invest, with 39.45%, Landsbanki Íslands hf, with 18.72% and Grundtvig Investment with 10.61%.

At the end of 2008, the Group had considerable financial resources together with contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the management of the Group believes that it is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The management of the Group believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements. The Board of Directors suggests that no dividends will be paid in the year 2009, but refers to the financial statements regarding appropriation of the year's net loss and changes in shareholders' equity.

The goodwill of the Group was tested for impairment at year-end by calculating its recoverable amount. The results of these impairment test was that there was no need for impairment as the recoverable amount of the goodwill was well above the book value.

According to the Board of Director´s best knowledge, these Consolidated Financial Statements comply with Act No. 3/2006, on Annual Accounts and give a true and fair picture of the Group´s assets and liabilities, financial position and operating performance as well as describing the principal risk and uncertainty factors faced by the company. The report of the Board of Directors provides a clear overview of developments and achievements in the company´s operations and its situation.

The Board of Directors and CEO of Marel Food Systems hf hereby ratify the Consolidated Financial Statements of Marel Food Systems hf for the year 2008 with their signatures.

Garðabær, 20 February 2009

Board of Directors

Arnar Þór Másson

Árni Oddur Þórðarson

Friðrik Jóhannsson

Helgi Magnússon

Lars Grundtvig

Margrét Jónsdóttir

Chief Executive Officer

Hörður Arnarson

Independent auditor’s report

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

We have audited the accompanying consolidated financial statements of Marel Food Systems hf and it´s subsidiaries (together; the Group) which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Garðabær, 20 February 2009.

PricewaterhouseCoopers hf

Þórir Ólafsson

Kristinn Freyr Kristinsson

Financial Ratios

	2008	2007	2006	2005	2004
Operating results					
Sales	540,149	289,817	208,700	129,039	112,301
Gross profit	178,931	97,236	68,803	43,625	41,016
Profit before depreciation (EBITDA)	42,108	20,980	15,679	14,814	16,527
Profit from operations (EBIT)	20,434	10,029	7,527	9,721	12,066
Profit (loss) for the year	(8,405)	6,066	159	5,715	7,984
Cash flow statement					
Net cash from (to) operating activities	15,288	2,778	(2,992)	2,987	13,207
Investing activities	(410,671)	(70,249)	(69,754)	(10,180)	(6,389)
Financing activities	386,480	34,118	132,318	7,210	(7,263)
Financial position					
Total assets	920,259	427,304	364,793	114,890	95,482
Working capital	(25,941)	109,887	87,989	16,557	19,807
Equity	288,279	181,835	144,423	41,032	31,595
Various figures in proportion to sales					
Gross profit	33.1%	33.6%	33.0%	33.8%	36.5%
Selling and marketing expenses	13.3%	15.5%	13.9%	12.4%	12.4%
Research and development expenses	5.1%	5.0%	5.6%	6.1%	5.8%
Administrative expenses	11.1%	10.0%	10.6%	8.7%	8.1%
Wages and benefits	33.7%	41.2%	42.7%	42.5%	41.9%
Profit before depreciation (EBITDA)	7.8%	7.2%	7.5%	11.5%	14.7%
Depreciation/amortization	4.0%	3.8%	3.9%	3.9%	4.0%
Profit from operations (EBIT)	3.8%	3.5%	3.6%	7.5%	10.7%
Profit (loss) for the period	-1.6%	2.1%	0.1%	4.4%	7.1%
Other key ratios					
Current ratio	0.9	1.9	1.9	1.4	1.6
Quick ratio	0.5	1.3	1.2	0.6	0.7
Equity ratio	31.3%	42.5%	39.6%	35.7%	33.1%
Return on owners' equity	-3.6%	3.7%	0.2%	18.1%	30.5%
Return on total assets	-1.2%	1.5%	0.1%	5.4%	9.0%

Marel Food Systems hf, Consolidated financial statements 31 December 2008 Amounts in thousands of EUR

Consolidated Income Statement

	Notes	2008 YTD	2007 YTD
Sales	5	540,149	289,817
Cost of sales		(361,218)	(192,581)
Gross profit		178,931	97,236
Other operating income		716	1,203
Selling and marketing expenses		(71,838)	(44,829)
Research and development expenses		(27,337)	(14,631)
Administrative expenses		(60,038)	(28,950)
Profit from operations		20,434	10,029
Finance costs - net	6	(32,194)	(7,091)
Share of results of associates	27	473	4,602
Profit (loss) before income tax		(11,287)	7,540
Income tax	8	2,882	(1,474)
Net profit (loss)		(8,405)	6,066
Attributable to:			
Equity holders of the Company		(8,405)	6,065
Minority interest		0	1
		(8,405)	6,066
Earnings per share for profit attributable to equity holders of the company during the year (expressed in EUR cent per share):			
- basic	9	(1.71)	1.65
- diluted	9	(1.68)	1.64

The notes on pages 62-92 are an integral part of the consolidated financial statements.

Amounts in thousands of EUR

Consolidated Balance Sheet

	Notes	31/12 2008	31/12 2007
ASSETS			
Non-current assets			
Property, plant and equipment	11	145,420	66,305
Goodwill and other intangible assets	12	480,438	120,035
Investments in associates	27	305	3,281
Deferred income tax assets	20	5,620	3,542
Available-for-sale investments	28	28	631
Trade receivables	15	2,683	245
Derivative financial instruments	17	0	127
		634,494	194,166
Current assets			
Inventories	13	113,636	61,587
Production contracts	14	26,473	15,168
Trade receivables	15	85,603	52,871
Other receivables and prepayments	15	34,652	20,427
Loan to Associate	30	0	49,607
Derivative financial instruments	17	4,364	3,041
Cash and cash equivalents	16	21,038	30,437
		285,765	233,138
Total assets		920,259	427,304
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		5,868	4,452
Treasury shares		(16)	(38)
Share premium		269,988	147,584
Fair value and other reserves	26	(9,449)	(502)
Retained earnings	25	21,888	30,293
		288,279	181,789
Minority interest		0	46
Total equity		288,279	181,835
LIABILITIES			
Non-current liabilities			
Borrowings	18	265,807	115,327
Deferred income tax liabilities	20	10,362	6,380
Provision for warranty	21	8,563	11
Derivative financial instruments	17	35,542	500
		320,274	122,218
Current liabilities			
Trade and other payables	19	156,203	75,487
Derivative financial instruments	17	8,261	117
Current income tax liabilities		6,703	736
Borrowings	18	134,636	45,029
Provisions	21	5,902	1,882
		311,706	123,251
Total liabilities		631,980	245,469
Total equity and liabilities		920,259	427,304

The notes on pages 62-92 are an integral part of the consolidated financial statements.

Marel Food Systems hf, Consolidated financial statements 31 December 2008 Amounts in thousands of EUR

Consolidated Statement of Changes in Shareholders' Equity

		Attributable to equity holders of the Company						
	Notes	Share capital	Share premium	Other reserves	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2007		4,045	115,369	(88)	25,052	144,378	45	144,423
Cash flow hedges:								
– net fair value gain/(loss), net of tax .	26			645		645		645
Currency translation differences	26			(1,059)		(1,059)		(1,059)
Net income/(expenses) recognised directly in equity		0	0	(414)	0	(414)	0	(414)
Sale of treasury shares		0				0		0
Purchases of treasury shares		(35)	(2,303)			(2,338)		(2,338)
Employee share option scheme:								
- value of services provided			557			557		557
Dividend related to 2006					(824)	(824)		(824)
Profit for the period					6,065	6,065	1	6,066
Issue of share capital		404	33,961			34,365		34,365
		369	32,215	(414)	5,241	37,411	1	37,412
Balance at 31 December 2007		4,414	147,584	(502)	30,293	181,789	46	181,835
Cash flow/net investment hedges:								
– net fair value gain/(loss), net of tax .	26			(13,307)		(13,307)		(13,307)
– reclassification of fair value loss	26			4,786		4,786		4,786
Currency translation differences	26			(426)		(426)		(426)
Net income/(expenses) recognised directly in equity		0	0	(8,947)	0	(8,947)	0	(8,947)
Business combination						0	(46)	(46)
Purchases/sale of treasury shares		22	2,015			2,037		2,037
Employee share option scheme:								
- value of services provided			43			43		43
Loss for the period					(8,405)	(8,405)		(8,405)
Issue of share capital		1,416	120,346			121,762		121,762
		1,438	122,404	(8,947)	(8,405)	106,490	(46)	106,444
Balance at 31 December 2008		5,852	269,988	(9,449)	21,888	288,279	0	288,279

The notes on pages 62-92 are an integral part of the consolidated financial statements.

Marel Food Systems hf, Consolidated financial statements 31 December 2008 Amounts in thousands of EUR

Consolidated Cash Flow Statement

	Notes	2008	2007
Cash flows from operating activities			
Net profit (loss)		(8,405)	6,066
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and impairment of fixed assets		11,999	5,069
Amortisation and impairment of intangible assets		9,674	5,882
Currency fluctuations and indexation		(3,546)	260
Changes in deferred taxes		(4,210)	246
Share of results of associates		(244)	(4,602)
Other changes		2,570	66
Working capital provided by operating activities		7,838	12,987
Changes in operating assets and liabilities:			
Inventories and production contracts (decrease)		(1,118)	(12,115)
Trade and other receivables increase (decrease)		16,159	(20,399)
Short-term liabilities, increase (decrease)		(7,591)	22,305
Changes in operating assets and liabilities		7,450	(10,209)
Net cash from operating activities		15,288	2,778
Cash flows to investing activities			
Acquisition of subsidiary, net of cash acquired	29	(425,970)	0
Purchase of property, plant and equipment (PPE)		(18,638)	(17,328)
Proceeds from sale of PPE		2,846	1,242
Purchase of intangible assets		(20,224)	(13,266)
Proceeds from sale of intangible assets		93	0
Purchase of associate investments		(1,061)	0
Loans made		0	(41,643)
Loan repayments received from associates		49,607	0
Proceeds from sale of equities		2,676	746
Net cash used in investing activities		(410,671)	(70,249)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		121,611	34,638
Proceeds from (purchase of) treasury shares, net		2,231	(2,154)
Proceeds from borrowings		285,434	24,669
Repayments of borrowings		(22,404)	(13,434)
Finance lease principal payments		(558)	(865)
Changes in short-term bank loans		166	(7,912)
Dividend paid to company´s shareholders		0	(824)
Net cash from financing activities		386,480	34,118
Net increase (decrease) in cash and cash equivalents		(8,903)	(33,353)
Exchange losses on cash and bank overdrafts		(496)	711
Cash and cash equivalents at beginning of year		30,437	63,079
Cash and cash equivalents at end of year		21,038	30,437
Other information			
Interest paid		(24,574)	(3,573)
Income tax paid		(259)	(1,864)
Interest received		5,685	1,910
Dividend received		50	8

The notes on pages 62-92 are an integral part of the consolidated financial statements.

Marel Food Systems hf, Consolidated financial statements 31 December 2008 Amounts in thousands of EUR

Notes to the Consolidated Financial Statements

1. General information

Marel Food Systems hf. ("the company") and its subsidiaries (together "the group") manufactures, distributes and sells solutions for use in all major sectors of the food processing industry. During the year, the group acquired control of Stork Food Systems operating in most western European countries and USA.

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

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

These consolidated financial statements have been approved for issue by the board of directors on 20 February 2009.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

2.1 Basis of preparation

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

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

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated interim financial statements, are disclosed in note 4.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets (including derivative instruments) at fair value through profit or loss.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group.

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods, but the group has not early adopted them:

IFRS 8, 'Operating segments' (effectiver 1 January 2009). IFRS 8 replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. Group will apply IFRS 8 prospectively from 1 January 2009.

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The group will apply IAS 23 (Amendment) retrospectively from 1 January 2009 but is currently not applicable to the group as there are no qualifying assets.

Notes to the Consolidated Financial Statements

IAS 1 (Revised), ‘Presentation of financial statements’ (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The group will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

IFRS 2 (Amendment), ‘Share-based payment’ (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The group will apply IFRS 2 (Amendment) from 1 January 2009. It is not expected to have a material impact on the group’s financial statements.

IAS 32 (Amendment), ‘Financial instruments: Presentation’, and IAS 1 (Amendment), ‘Presentation of financial statements’ – ‘Puttable financial instruments and obligations arising on liquidation’ (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The group will apply the IAS 32 and IAS 1(Amendment) from 1 January 2009. It is not expected to have any impact on the group’s financial statements.

IFRS 1 (Amendment) ‘First time adoption of IFRS’, and IAS 27 ‘Consolidated and separate financial statements’ (effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The group will apply IFRS 1 (Amendment) from 1 January 2009, as all subsidiaries of the group will transition to IFRS. The amendment will not have any impact on the group’s financial statements.

IAS 27 (Revised), ‘Consolidated and separate financial statements’, (effective from 1 July 2009). The revised standard requires the effects of all transactions with non controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

IFRS 3 (Revised), ‘Business combinations’ (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed. The group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

Notes to the Consolidated Financial Statements

IFRS 5 (Amendment), ‘Non-current assets held-for-sale and discontinued operations’ (and consequential amendment to IFRS 1, ‘First-time adoption’) (effective from 1 July 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary’s assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

IAS 23 (Amendment), ‘Borrowing costs’ (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 ‘Financial instruments: Recognition and measurement’. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The group will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

IAS 28 (Amendment), ‘Investments in associates’ (and consequential amendments to IAS 32, ‘Financial Instruments: Presentation’, and IFRS 7, ‘Financial instruments: Disclosures’) (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. An investment in associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The group will apply the IAS 28 (Amendment) to impairment tests related to investments in subsidiaries and any related impairment losses from 1 January 2009.

IAS 36 (Amendment), ‘Impairment of assets’ (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The group will apply the IAS 28 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

IAS 38 (Amendment), ‘Intangible assets' effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. This means that an expense will be recognised for shoe mail order catalogues when the group has access to the catalogues and not when the catalogues are distributed to customers, as is the group’s current accounting policy. The group will apply the IAS 38 (Amendment) from 1 January 2009 with an expected write-off of prepayments of C500 to retained earnings.

IAS 19 (Amendment), ‘Employee benefits’ (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008.
– The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
– The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
– The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
– IAS 37, ‘Provisions, contingent liabilities and contingent assets, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.
The group will apply the IAS 19 (Amendment) from 1 January 2009.

IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.
– This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
– The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition.
- The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8, 'Operating segments', which requires disclosure for segments to be based on information reported to the chief operating decision-maker. Currently, for segment reporting purposes, each subsidiary designates contracts with group treasury as fair value or cash flow hedges so that the hedges are reported in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision-maker. See note 3.1 for further details. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision-maker), but the group will not formally document and test this relationship.

- When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.
The group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the group's income statement.

IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the group's financial statements.

There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the group's accounts and have therefore not been analysed in detail.

IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The group will apply IFRIC 16 from 1 January 2009. It is not expected to have a material impact on the group's financial statements.

2.2 Consolidation

Subsidiaries
Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases. The principal subsidiaries are listed in note 32.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See note 2.7 for the impairment of non-financial assets including goodwill.

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

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

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

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

Functional and presentation currency
Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The consolidated financial statements are presented in Euros (EUR), which is the Company's functional and the Group's presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates 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 and qualifying net investment hedges as explained in note 2.9. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within ‘Finance cost - net’. All other foreign exchange gains and losses are presented in the income statement within ‘Finance cost – net'.

Group companies
The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates
(unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognised as a separate component of equity (cumulative translation adjustment).

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Land and buildings comprise mainly factories and offices. All property, plant and equipment (PPE) is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are recognised within ‘Other (losses)/gains – net’ in the income statement.

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

2.6 Intangible assets

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

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

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

Computer software
Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:
– it is technically feasible to complete the software product so that it will be available for use;
– management intends to complete the software product and use or sell it;
– there is an ability to use or sell the software product;
– it can be demonstrated how the software product will generate probable future economic benefits;
– adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
– the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.
Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

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

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

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

Receivables
Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The group's receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet (notes 2.12 and 2.13).

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

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

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of receivables is described in note 2.12.

2.9 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either
(a) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).; or
(b) hedges of a net investment in a foreign operation (net investment hedge).

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

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

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within ´Finance cost – net'.

(b) Net investment hedge
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other gains/(losses) – net'.

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

(c) Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any these derivative instruments are recognised immediately in the income statement within Finance cost – net'.

2.10 Inventories

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

Notes to the Consolidated Financial Statements

2.11 Production (construction) contracts

Production costs are recognised when incurred.

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

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

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

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

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

2.12 Receivables and prepayments

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within sales. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against sales in the income statement.

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.14 Share capital

Ordinary shares are classified as equity.

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

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

2.15 Trade payable

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

Notes to the Consolidated Financial Statements

2.16 Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Employee benefits

Share-based compensation

The group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Profit sharing and bonus plans

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

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

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

2.19 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses. The company gives warranty on certain products and undertakes to repair or replace items that fail to perform satisfactorily. The 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 Revenue recognition

Revenue comprises the invoiced value for the sale of goods and services net of value-added tax, commissions and discounts, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

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

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

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Dividends are recognised when the right to receive payment is established.

2.21 Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.22 Dividend distribution

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

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow risk and fair value interest-rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out within the group where applicable under policies approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to UK pound and US dollar. The Group use forward contracts to manage its foreign exchange risk arising from future commercial transactions, recognised assets and liabilities. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the Group's functional currency.

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

At 31 December 2008, if the functional currency had weakened/strengthened by 1% against the US dollar with all other variables held constant, post-tax profit for the year would have been EUR 309 lower/higher as a result of foreign exchange gains/losses on translation of US dollar-denominated financial instruments. Profit is more sensitive to movements in functional currency/ USD exchange rates in 2008 than 2007 because of increased amount of USD borrowings.

At 31 December 2008, if the functional currency had weakened/strengthened by 1% against the DKK, Danish Krona with all other variables held constant, post – tax profit for the year would have been EUR 282 lower/higher as a result of foreign exchange gains/losses on translation of USD denominated financial instruments. The sensitivity of DKK denominated financial instruments is relatively similar to last year.

(ii) Cash flow and fair value interest rate risk
The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk. Group policy is to maintain approximately 60% of its borrowings in fixed rate instruments. During 2007 and 2008, the group's borrowings at variable rate were denominated in EUR, DKK, SKK and ISK.

Based on the various scenarios, the group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the group borrowed at fixed rates directly. Under the interest rate swaps, the group agrees with other parties to exchange, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

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

At 31 December 2008, if interest rates on functional currency-denominated borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been EUR 728 lower/higher, as a result of higher/lower interest expense on floating rate borrowings. At 31 December 2008, if interest rates on DKK-denominated borrowings at that date had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been EUR 142 lower/higher, as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

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

Exposure to credit risk

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

		Carrying amount	
	Note	**2008**	**2007**
Trade receivables	15	88,286	53,116
Other receivables and prepayments	15	34,652	20,427
Loan to Associate		0	49,607
Derivative financial instruments	17	4,364	3,168
Cash and cash equivalents	16	21,038	30,437
		148,340	156,755

(c) Liquidity risk

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

Management monitors rolling forecasts of the group's liquidity reserve (comprises undrawn borrowing facility (note 18) and cash and cash equivalents (note 16)) on the basis of expected cash flow. This is generally carried out at local level in the operating companies of the group in accordance with practice and limits set by the group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these; monitoring balance sheet liquidity ratios against internal and external regulatory requirements; and maintaining debt financing plans.

The table below analyses the group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows [1]. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 31 December 2008	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 Years**
Borrowings	134,636	41,191	111,147	143,049
Trade and other payables	156,203	0	0	0

At 31 December 2007	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 Years**
Borrowings	45,029	9,207	98,864	30,124
Trade and other payables	75,487	0	0	0

[1] As the amounts included in the table are the contractual undiscounted cash flows, these amounts will not reconcile to the amounts disclosed on the balance sheet for borrowings, derivative financial instruments and trade and other payables. Entities can choose to add a reconciling column and a final total which lies into the balance sheet if they so wish.

3.2 Capital risk management

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

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

	2008	2007
Total borrowings (note 18)	400,443	160,356
Less: cash and cash equivalents (note 16)	(21,038)	(30,437)
Net debt	379,405	129,919
Total equity	288,279	181,835
Total capital	667,684	311,754
Gearing ratio	56.8%	41.7%

The increase in the gearing ratio during 2008 resulted primarily from new loans less issue of share capital as part of the consideration for the acquisition of a subsidiary.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

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

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

4. Critical accounting estimates and assumptions

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill
The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value in use calculation. These calculations require the use of estimates (note 12).

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

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

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

5. Segment information

Business segments
At 31 December 2008, the Group is organised on a worldwide basis into five main business segments (industries): (1) Fish, (2) Poultry, (3) Meat, (4) Other food and (5) Non food.

Other (unallocated) Group operations mainly comprise the sale of manufacturing services which does not constitute a separately reportable segment.

The segment results for the year ended 31 December 2008 are as follows:

	Fish	Poultry	Meat	Other Food	Non Food	Group
Total gross segment sales	126,372	265,530	153,436	73,875	37,841	657,053
Inter-segment sales	(29,582)	(38,360)	(40,158)	(5,149)	(3,655)	(116,904)
Sales	96,790	227,170	113,278	68,726	34,186	540,149
Operating profit						20,434
Finance costs - net						(32,194)
Share of results of associates						473
Loss before tax						(11,287)
Income tax expense						2,882
Loss for the year						(8,405)

The segment results for the year ended 31 December 2007 are as follows:

	Fish	Poultry	Meat	Other Food	Non Food	Group
Total gross segment sales	111,022	88,014	102,958	47,567	22,080	371,641
Inter-segment sales	(14,419)	(11,072)	(8,643)	(45,161)	(2,529)	(81,824)
Sales	96,603	76,942	94,315	2,406	19,551	289,817
Operating profit						10,029
Finance costs - net						(7,091)
Share of results of associates						4,602
Profit before tax						7,540
Income tax expense						(1,474)
Profit for the year						6,066

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

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

Secondary reporting format – geographical segments

The Group's three business segments operate in four main geographical areas, even though they are managed on a worldwide basis.
The home country of the Company – which is also the main operating company – is Iceland.

Sales	**2008**	**2007**
Iceland	3,325	2,449
Europe other	408,009	214,527
North America	93,587	56,163
Other countries	35,228	16,678
	540,149	289,817

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

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	2008	2007
Total assets		
Iceland	477,732	310,492
Other countries	442,527	116,812
	920,259	427,304

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

	2008	2007
Capital expenditure		
Iceland	2,198	2,528
Other countries	22,107	14,801
	24,305	17,329

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

6. Finance costs – net

	2008	2007
Interest expense:		
- borrowings	(26,656)	(8,465)
- finance leases	(62)	(177)
- other interest expenses	(2,544)	(379)
	(29,262)	(9,021)
Interest income	4,907	1,910
Other finance income (cost)	32	8
Net foreign exchange transaction gains/(losses)	(7,871)	12
	(32,194)	(7,091)

7. Staff costs

	2008	2007
Wages	158,195	106,151
Related expenses	23,861	13,194
	182,056	119,345

Staff costs analyses as follows in the income statement:

	2008	2007
Cost of sales	82,915	63,007
Selling and marketing expenses	46,708	27,478
Research and development expenses	28,393	11,958
Administrative expenses	24,040	16,902
	182,056	119,345

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Notes to the Consolidated Financial Statements

8. Income tax

	2008	2007
Current tax	1,328	1,228
Deferred tax	(4,210)	246
	(2,882)	1,474

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2008	2007
Profit (loss) before tax	(11,287)	7,540
Tax calculated at domestic tax rates applicable to profits in the respective countries	(1,690)	1,932
Permanent differences for tax purposes	(1,076)	(528)
Change in tax percentage	(390)	(281)
Impacts from previously unrecogn. tax losses/asset not recognized and other items	274	351
Tax charge	(2,882)	1,474

The weighted average applicable tax rate was 26% (2007: 20%).

9. Earnings per share

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

	2008	2007
Net profit (loss) attributable to equity holders	(8,405)	6,066
Weighted average number of outstanding shares in issue (thousands)	492,885	368,343
Basic earnings per share (EUR cent per share)	(1.71)	1.65

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

	2008	2007
Net profit (loss) used to determine diluted earnings per share	(8,405)	6,065
Weighted average number of outstanding shares in issue (thousands)	492,885	368,343
Adjustments for share options (thousands)	6,993	2,264
Weighted average number of outstanding shares for diluted earnings per share (thousands)	499,878	370,607
Diluted earnings per share (EUR cent)	(1.68)	1.64

10. Dividend per share

The dividends paid in March 2008 and March 2007 were EUR 0 (EUR 0.00 cents per share) and EUR 824 (EUR 0.22 cents per share) respectively.

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Notes to the Consolidated Financial Statements

11. Property, plant and equipment

	Land & buildings	Plant & machinery	Vehicles & equipment	Total
At 1 January 2007				
Cost	45,813	18,078	15,750	79,641
Accumulated depreciation	(4,573)	(10,243)	(8,700)	(23,516)
Net book amount	41,240	7,835	7,050	56,125
Year ended 31 December 2007				
Opening net book amount	41,240	7,835	7,050	56,125
Business combination				0
Exchange differences	(336)	(278)	(262)	(876)
Additions	8,282	3,039	6,007	17,328
Disposals	0	(71)	(1,132)	(1,203)
Depreciation charge	(526)	(1,812)	(2,731)	(5,069)
Closing net book amount	48,660	8,713	8,932	66,305
At 31 December 2007				
Cost	53,749	20,242	17,856	91,847
Accumulated depreciation	(5,089)	(11,529)	(8,924)	(25,542)
Net book amount	48,660	8,713	8,932	66,305
Year ended 31 December 2008				
Opening net book amount	48,660	8,713	8,932	66,305
Business combinations	48,356	15,114	5,797	69,267
Exchange differences	425	463	(417)	470
Additions	10,029	10,137	4,139	24,305
Disposals	(2,107)	(286)	(535)	(2,929)
Depreciation charge	(2,737)	(4,837)	(4,426)	(12,000)
Closing net book amount	102,626	29,304	13,490	145,420
At 31 December 2008				
Cost	110,452	45,670	26,840	182,961
Accumulated depreciation	(7,826)	(16,365)	(13,350)	(37,541)
Net book amount	102,626	29,304	13,490	145,420

	2008	**2007**
Depreciation of property, plant and equipment analyses as follows in the income statement:		
Cost of sales	6,459	3,287
Selling and marketing expenses	1,003	744
Development expenses	751	256
Administrative expenses	3,788	782
	12,000	5,069

Bank borrowings are secured on land and buildings (Austurhraun 9) for the value of USD 7.3 million (2007:USD 7.3 million) and ISK 2,864 million.

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12. Goodwill and other intangible assets

	Goodwill	Developm. costs	Trade name	Other intangible	Total
At 1 January 2007					
Cost	97,117	18,684	0	2,144	117,945
Accumulated depreciation	0	(3,736)		(582)	(4,318)
Net book amount	97,117	14,948	0	1,562	113,627
Year ended 31 December 2007					
Opening net book amount	97,117	14,948	0	1,562	113,627
Allocation of business combination	(4,693)	0	3,201	1,492	0
Exchange differences	(835)	(124)	0	(17)	(976)
Additions	3,920	8,418	0	928	13,266
Amortisation charge	(59)	(5,000)	0	(823)	(5,882)
Closing net book amount	95,450	18,242	3,201	3,142	120,035
Year ended 31 December 2008					
Opening net book amount	95,450	18,242	3,201	3,142	120,035
Business combination	16,128	9,515	2,638	37,646	65,927
Exchange differences	(619)	(252)		1,812	941
Additions	284,020	18,013		1,176	303,209
Amortisation charge	0	(6,516)	(327)	(2,831)	(9,674)
Closing net book amount	394,979	39,002	5,512	40,945	480,438
At 31 December 2008					
Cost	395,038	54,254	5,839	45,181	500,312
Accumulated depreciation	(59)	(15,252)	(327)	(4,236)	(19,874)
Net book amount	394,979	39,002	5,512	40,945	480,438

Amortisation of intangible assets analyses as follows in the income statement:

	2008	**2007**
Cost of sales	112	89
Selling and marketing expenses	158	128
Development expenses	7,564	5,519
Administrative expenses	1,840	146
	9,674	5,882

Impairment tests for goodwill
Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operation of each entity.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates (3%), EBITDA margin (4-19%) and discount rate (9-21%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	Stork	**Scanvægt**	**Other**	**Total**
Goodwill	300,148	73,590	21,241	394,979
EBITDA margin[1]	4.0 - 18.5%	7.5 - 11.9%	6.0 - 9.1%	
Growth rate[2]	3%	3%	3%	
Discount rate[3]	8.5-17.0%	9.3 - 20.9%	10-11%	

[1] Budgeted EBITDA margin.
[2] Weighted average growth rate used to extrapolate cash flows beyond the budget period.
[3] Pre-tax discount rate applied to the cash flow projections.

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

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

13. Inventories

	31/12 2008	31/12 2007
Raw materials	37,198	30,912
Work in progress	44,158	9,519
Finished goods	32,281	21,156
	113,636	61,587

The cost of inventories recognised as expense and included in 'cost of goods sold' amounted to EUR 268,129 (2007: EUR 104,605).

Inventories of EUR 61,966 (2007: EUR 8,951) have been pledged as security for borrowings.

14. Production contracts

Ordered work in process	57,999	37,282
Advances received on ordered work in process	(31,526)	(22,114)
	26,473	15,168

15. Trade receivables

Current receivables:		
Trade receivables	91,797	55,946
Less: Provision for impairment of receivables	(3,511)	(2,830)
Trade receivables – net	88,286	53,116
Less non-current portion	(2,683)	(245)
Current portion	85,603	52,871

Other receivables and prepayments		
Pre-payments	11,938	13,269
Other receivables	22,714	7,158
	34,652	20,427

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

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

As of 31 December 2008, trade receivables of EUR 45,680 were fully performing.

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2008, trade receivables of EUR 26,851 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. As of 31 December 2008, trade receivables of EUR 13,242 were impaired and provided for. The amount of the provision was EUR 3,511 as of 31 December 2008. The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	Gross amount	Impairment
Up to 2 months	26,851	0
Over 2 months	13,242	3,511
	40,093	3,511

Receivables of EUR 50,595 (2007: EUR 4,141) have been pledged as security for borrowings.

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

	2008
EUR	50,440
US dollar	16,002
UK pound	4,290
Other currencies	14,871
	85,603

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

	2008	2007
At 1 January	2,830	2,581
Business combination	2,050	0
Provision for receivables impairment	982	1,403
Receivables written off during the year as uncollectible	(1,719)	(790)
Unused amounts reversed	(632)	(363)
At 31 December	3,511	2,830

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

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

16. Cash and cash equivalents

	31/12 2008	31/12 2007
Cash at bank and in hand	21,038	30,437

Bank overdrafts are considered to be financing activities in the cash flow statement.

17. Derivative financial instruments

	31 December 2008		31 December 2007	
	Assets	Liabilities	Assets	Liabilities
Interest-rate swaps – cash flow hedges	0	10,025	127	117
Currency interest-rate swaps – fair value hedges	4,364	33,778	1,775	500
Forward foreign exchange contracts – cash flow hedges	0	0	1,266	0
Total	4,364	43,803	3,168	617
Less non-current portion:				
Interest-rate swaps – cash flow hedges	0	0	127	0
Currency interest-rate swaps – fair value hedges	0	35,542	0	500
Total non-current	0	35,542	127	500
Current portion	4,364	8,261	3,041	117

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

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a) Cash flow hedges of forecast transactions

The Group has used forward foreign exchange contracts to hedge some forecast transactions relating to operating expenses. These foreign exchange contracts have been designated as cash flow hedges. In Q4 the hedged operating cost had declined and forecasted transactions are not expected to occur at the amount originally hedged. Therefore the hedge relationships were terminated and the related cumulative loss on the hedging instruments that had been recognised in other comprehensive income from the period when the hedge was effective, was reclassified from equity to profit and loss as a reclassification adjustment. The amount reclassified was EUR 4.8 million.

(b) Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2008 were EUR 39,636 (2007: EUR 30,805).

(c) Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2008 were EUR 10,151 (2007: EUR 10,530).

At 31 December 2008, the fixed interest rates vary from 3.3% to 7.98% (2007: 3.3% to 7.98%), and the main floating rates are EURIBOR, CIBOR and LIBOR. Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 31 December 2008 will be continuously released to the income statement until the repayment of the bank borrowings (note 18).

(c) Hedge of net investment in foreign entity

The group's net investment in UK subsidiary amounting to EUR 14,461 (2007: EUR 20,418) is hedged in full. The foreign exchange gain of EUR 1,922 (2007: loss of EUR 704) on translation of the borrowing to currency at the balance sheet date is recognised in other reserves, in shareholders' equity.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

18. Borrowings

	31/12 2008	31/12 2007
Non-current:		
Bank borrowings	208,453	29,337
Debentures	57,166	85,657
Finance lease liabilities	188	333
	265,807	115,327
Current:		
Revolver	47,508	21,919
Bank borrowings	51,692	2,632
Debentures	35,238	19,973
Finance lease liabilities	198	505
	134,636	45,029
Total borrowings	400,443	160,356

The borrowings include secured liabilities (leases and bank borrowings) in a total amount of EUR 248,837 (2007: EUR 50,768). The bank borrowings are secured over certain of accounts receivable and inventories. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

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The carrying amounts of the group's borrowings are denominated in the following currencies:

Liabilities in currency:	Finance lease liabilities	Other borrowings	Total 31/12 2008	Total 31/12 2007
Liabilities in CHF	0	2,332	2,332	2,311
Liabilities in DKK	86	20,894	20,980	48,918
Liabilities in EUR	0	218,696	218,696	20,592
Liabilities in GBP	48	2,255	2,303	1,607
Liabilities in ISK, index linked	0	102,901	102,901	73,469
Liabilities in JPY	0	1,299	1,299	161
Liabilities in NOK	0	499	499	380
Liabilities in SKK	0	12,483	12,483	8,706
Liabilities in USD	111	38,075	38,186	3,853
Liabilities in other currency	141	623	764	359
	386	400,057	400,443	160,356
Current maturates	(198)	(134,438)	(134,636)	(45,029)
	188	265,619	265,807	115,327

Annual maturates of non-current liabilities:

Period 2010/2009	98	41,037	41,135	4,174
Period 2011/2010	52	8,393	8,445	3,284
Period 2012/2011	38	58,433	58,471	3,161
Period 2013/2012	0	12,084	12,084	76,453
Later	0	145,672	145,672	28,255
	188	265,619	265,807	115,327

Bank borrowings

Bank borrowings mature until 2027 and bear average coupons of 8.67% annually (2007: 6.24% annually).

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

6 months or less	53,536
6-12 months	81,100
1-5 years	120,135
Over 5 years	145,672
	400,443

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		**Fair value**	
	2008	**2007**	**2008**	**2007**
Bank borrowings	208,453	29,337	206,246	29,026
Debentures	57,166	85,657	60,699	84,750
Finance lease	188	333	192	329
	265,807	115,327	267,137	114,105

The carrying amounts and fair value of the non-current borrowings are EUR 265,807 and EUR 115,327 respectively. The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 10% (2007: 10%).

The carrying amounts of short-term borrowings approximate their fair value.

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The group has the following undrawn borrowing facilities:

	2008	2007
Floating rate:		
– Expiring within one year	13,487	20,258
– Expiring beyond one year	0	1,957
	13,487	22,215

The facilities expiring within one year are annual facilities subject to review at various dates during 2009.

19. Trade and other payables

	31/12 2008	31/12 2007
Trade payables	41,444	24,389
Accruals	7,791	21,607
Deferred income	42,416	17,693
Other payables	64,552	11,798
	156,203	75,487

20. Deferred income tax

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

The gross movement on the deferred income tax account is as follows:

1 January 2007	2,315
Exchange differences and changes within the group	28
Income statement charge (Note 8)	1,474
Less current tax	(1,228)
Tax charged to equity	249
End of year 2007	2,838
1 January 2008	2,838
Business combination (Note 29)	9,076
Exchange differences and changes within the group	(142)
Income statement charge (Note 8)	(2,882)
Less current tax	(1,328)
Tax charged to equity	(2,820)
End of year 2008	4,742

	2008	2007
The deferred tax charged/(credited) to equity during the period is as follows:		
Fair value reserves in shareholders' equity		
– hedging reserve	(2,780)	193

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

	2008	2007
Deferred tax assets	(5,620)	(3,542)
Deferred tax liabilities	10,362	6,380
	4,742	2,838

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	2008	2007
Deferred income tax liability (assets) analyses on the following items:		
Non-current assets	20,494	6,864
Hedge reserve	(2,524)	231
Taxable loss carried forward	(12,132)	(4,975)
Other items	(1,096)	718
	4,742	2,838

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. Taxable effects of losses amounting to EUR 6,544 expire in the years 2010-2028.

21. Provisions for Warranty

Warranty:	
At 1 January 2007	1,502
Changes entered into income statement	391
At 31 December 2007	1,893
At 1 January 2008	1,893
Business combination	12,121
Changes entered into income statement	451
At 31 December 2008	14,465

	31/12 2008	31/12 2007
Analysis of total provisions:		
Current	5,902	1,882
Non current	8,563	11
	14,465	1,893

22. Contingencies

Contingent liabilities:

At year end 2008 the Group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise. In the ordinary course of business the Group has given guarantees amounting to EUR 4,651 (2007: EUR 22,267) to third parties.

23. 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 14,376. The amount will be charged at the relevant rental time of each agreement. The rental agreements will materialise in the years 2009 - 2016.

Insurance
The Group has bought a loss of profit insurance which will cover work stoppage for up to 12 months, based on terms of operation insurance agreement. The insurance benefits amounts up to EUR 484 million. The Group insurance value of buildings amounts to EUR 148 million, production machinery and equipment including software and office equipment amounts to EUR 146 million and inventories to EUR 135 million.

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24. Share capital

	Number of shares (thousands)	Ordinary shares	Treasury shares	Total
At 1 January 2007	365,832	367,081	(1,249)	365,832
Issue of shares	36,705	36,705	0	36,705
Treasury shares purchased	(2,702)	0	(2,702)	(2,702)
Treasury shares sold	515	0	515	515
At 31 December 2007	400,350	403,786	(3,436)	400,350
Issue of shares	176,514	176,514	0	176,514
Treasury shares sold	2,000	0	2,000	2,000
At 31 December 2008	578,864	580,300	(1,436)	578,864

The total authorised number of ordinary shares is 580,3 million shares (2007: 403,8 million shares) with a par value of ISK 1 per share (2007: ISK 1 per share). All issued shares are fully paid.

Share options are granted to directors and to selected employees. The exercise price of the granted options in 2006 is higher than market price of the shares on the date of grant (16 February 2006). The exercise price of the granted options in January 2007 is equal to the market price of the shares on date of the grant (29 January 2007). The exercise price of the granted options in December 2007 is below the market price of the shares on date of the grant (3 December 2007). The exercise price of options granted in June 2008 is higher than the market price of the shares at date of the grant (3rd June 2008). Options are conditional on the employee completing particular period's/year´s service (the vesting period). The group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	Average exercise price in ISK per share	Options (thousands)
At 1 January 2007		17,614
Granted 2007	74	1,500
Granted 2007	92	1,315
Forfeited 2007	71	(492)
Exercised 2007	71	(3,379)
At 31 December 2007		16,558
Granted 2008	89	11,625
Forfeited 2008	71	(803)
At 31 December 2008	80	27,380

Outstanding option granted 2006 and 2007 (exercise price 71 and 74) have expiry date 2010 plus one year in grace. Outstanding option granted 2007 (exercise price 92) have expiry date 2011 plus one year in grace. Outstanding option granted 2008 (excercise price 89) have expiry date 2012 plus one year in grace.

25. Retained earnings

At 1 January 2007	25,052
Profit for the year	6,065
Dividends paid relating to 2006	(824)
At 31 December 2007	30,293
At 1 January 2008	30,293
Loss of the year	(8,405)
At 31 December 2008	21,888

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26. Fair value reserves and other reserves

	Hedging reserve	Cumulative translation adjustment	Total
Balance at 1 January 2007	399	(487)	(88)
Cash flow hedges:			
– Fair value gain/(loss) in period	838	0	838
– Tax on fair value	(193)	0	(193)
Currency translation differences	0	(1,059)	(1,059)
Balance at 31 December 2007	1,044	(1,546)	(502)
Cash flow/net investment hedges:			
– Fair value gain/(loss) in period	(6,513)	0	(6,513)
– Reclassification of fair value loss	(4,786)		
– Tax on fair value	2,778	0	2,778
Currency translation differences		(426)	(426)
Balance at 31 December 2008	(7,477)	(1,972)	(4,663)

27. Investments in associates

	31/12 2008	31/12 2007
Beginning of year	3,281	(576)
Business combination	225	0
Additions	80	0
Translation difference	0	1
Sale of associate	(3,754)	(746)
Share of results	473	4,602
End of year	305	3,281

28. Available-for-sale investments

At 1 January 2007	744
Impairment unwinding	(113)
At 31 December 2007	631
Sale of available-for-sale investments	(603)
At 31 December 2008	28

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

29. Business combination

On the 8th of May the group acquired 100% share of Stork Food Systems. Marel Food Systems paid an acquisition price of EUR 428.7 million plus deal cost of EUR 12.6 million. Stork Food Systems is subsidiary of Marel Holding B.V. which was established in relation to the acquisition.

The acquired business contributed revenue of EUR 228 million and net loss after tax of EUR 0.6 million to the group for the period from acquisition to end of year 2008.

Details of net assets acquired and goodwill are as follows:
Purchase consideration:

- Cash paid	428,725
- Direct cost relating to the acquisition	12,637
	441,362
Fair value of net assets acquired	(157,342)
Goodwill	284,020

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

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

Cash and cash equivalents	15,392
Intangibles	65,927
Property, plant and equipment	75,066
Inventories	71,481
Receivables and prepayments	68,188
Provisions	(12,121)
Trade creditors and liabilities	(117,515)
Current tax liabilities	(9,076)
Fair value of net assets acquired	157,342
Goodwill	284,020
	441,362
Purchase consideration settled in cash	441,362
Cash and cash equivalents in subsidiary acquired	(15,392)
Cash outflow on acquisition	425,970

30. Related party transactions

At the end of year 2008, there are no loans to directors (31 December 2007: EUR nil). In addition there were no transactions carried out (purchases of goods and services) between the group and the directors in the years 2008 and 2007.

No loans were granted to related parties in 2008. During the years 2007, a loan amounting to EUR 49.6 million was granted to LME Eignarhaldsfélag ehf. Marel Food Systems hf is owner of 20% of the shares in the company but sold them in 2008 and the loan was repaid.

	Payroll and benefits	Benefits from stock option	Stock options [1]	Bought shares acc. to stock options [2]	Shares at year-end [1]
Board fee for the year 2008 and shares at year-end					
Árni Oddur Þórðarson, Chairman [2]	72	0	0	0	229,057
Arnar Þór Másson, Board member	24	0	0	0	0
Friðrik Jóhannsson, Board member	24	0	0	0	4,800
Helgi Magnússon, Board member	24	0	0	0	6,308
Margrét Jónsdóttir, Board member	24	0	0	0	200
Lars Grundtvig, Board member [3]	24	0	0	0	61,560
Management salaries and benefits for the year 2008 and shares at year end					
Hörður Arnarsson, CEO	665	0	6,000	0	1,751
Theo Hoen, Vice CEO and MD of SFS	167	0	2,000	0	0
Erik Kaman, CFO	186	0	1,500	0	675
Lárus Ásgeirsson, Director of sales	279	0	1,000	0	1,021
Sigsteinn Grétarsson, Man Director Marel ehf	224	0	1,000	0	26

1) Number of shares in thousands of ISK

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

3) Shares owned by Grundtvig Invest AsP

Notes to the Consolidated Financial Statements

31. Fees to Auditors

	2008	2007
Audit of financial statements	1,018	557
Review of interim financial statements	267	203
Other services	456	237
	1,741	997

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

32. Principal subsidiaries

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

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

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Publication schedule for 2009-2010

Reports:

6 May 2009	1st Quarter
6 August 2009	2nd Quarter
3 November 2009	3rd Quarter
4 February 2010	4th Quarter and annual results
3 March 2010	Annual General Meeting

Design and layout: Hvita husid
Printing: Prentmet

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