

Condensed Consolidated Interim Financial Statements

31 March 2014

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1 The Board of Directors' and CEO's Report

According to our best knowledge it is our opinion that the condensed consolidated interim information gives a true and fair view of the consolidated financial performance of the Company for the three-month period ended 31 March 2014, its assets, liabilities and consolidated financial position as at 31 March 2014 and its consolidated cash flows for the three-month period ended 31 March 2014.

Further, in our opinion the condensed consolidated financial interim information and the endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the condensed consolidated interim financial information of Marel hf. for the three-month period ended 31 March 2014 and confirm these by means of their signatures.

Garðabær, 28 April 2014

Board of Directors

Ásthildur Margrét Otharsdóttir
Arnar Þór Másson
Ann Elizabeth Savage
Astvaldur Johannesson
Helgi Magnússon
Margrét Jónsdóttir
Olafur S. Guðmundsson

Chief Executive Officer

Árni Oddur Þórðarson

2 Condensed Consolidated Statement of Comprehensive Income

		YTD 2014	YTD 2013
	Notes		
Revenues	5	154,757	158,028
Cost of sales		<u>(102,608)</u>	<u>(100,519)</u>
Gross profit		52,149	57,509
Selling and marketing expenses		(25,807)	(24,072)
Research and development expenses		(12,459)	(11,197)
Administrative expenses		(12,867)	(11,911)
Other operating income / (expenses)		<u>3</u>	<u>2</u>
Result from operations		1,019	10,331
Finance costs	6	(3,682)	(3,815)
Finance income	6	<u>23</u>	<u>72</u>
Net finance costs	6	(3,659)	(3,743)
Result before income tax		(2,640)	6,588
Income tax	7	<u>769</u>	<u>(866)</u>
Profit (loss) for the period		<u>(1,871)</u>	<u>5,722</u>
Other Comprehensive Income			
Items that are or will be reclassified to profit or loss:			
Currency translation differences		526	(214)
Cash flow hedges		441	487
Income tax relating to cash flow hedges		<u>(118)</u>	<u>(121)</u>
Other comprehensive income for the period, net of tax		849	152
Total comprehensive income for the period		<u>(1,022)</u>	<u>5,874</u>
Profit (loss) attributable to:			
Shareholders of the Company		<u>(1,871)</u>	<u>5,722</u>
Comprehensive income attributable to:			
Shareholders of the Company		<u>(1,022)</u>	<u>5,874</u>
Earnings per share for result attributable to equity holders of the Company during the period (expressed in EUR cent per share):			
- basic	8	(0.25)	0.78
- diluted	8	(0.25)	0.77
Earnings per share for total comprehensive income attributable to equity holders of the Company during the period (expressed in EUR cent per share):			
- basic		(0.14)	0.80
- diluted		(0.14)	0.79

The notes on pages 7 - 14 are an integral part of the Condensed Consolidated Interim Financial Statements.

3 Condensed Consolidated Statement of Financial Position

ASSETS	Notes	31/03 2014	31/12 2013
Non-current assets			
Property, plant and equipment	9	104,823	104,707
Goodwill	10	378,780	378,708
Other intangible assets	10	118,715	118,561
Trade receivables		442	691
Deferred income tax assets	11	10,679	9,611
		613,439	612,278
Current assets			
Inventories	12	93,068	91,796
Production contracts		24,950	24,829
Trade receivables		66,907	68,737
Other receivables and prepayments		22,500	22,135
Cash and cash equivalents		19,429	19,793
		226,854	227,290
Total assets		840,293	839,568
EQUITY			
Capital and reserves attributable to equity holders of Marel hf.			
Share capital	13	6,726	6,727
Share premium	13	317,072	317,294
Hedge reserve		(4,996)	(5,319)
Translation reserve		(594)	(1,120)
Retained earnings		99,923	101,757
Total equity		418,131	419,339
LIABILITIES			
Non-current liabilities			
Borrowings	14	209,147	214,846
Deferred income tax liabilities	11	13,247	13,885
Provisions		5,896	6,065
Derivative financial instruments		6,743	7,184
		235,033	241,980
Current liabilities			
Production contracts		48,453	44,881
Trade and other payables		114,135	105,662
Current income tax liabilities		3,528	3,526
Borrowings	14	18,687	22,077
Provisions		2,326	2,103
		187,129	178,249
Total liabilities		422,162	420,229
Total equity and liabilities		840,293	839,568

The notes on pages 7 - 14 are an integral part of the Condensed Consolidated Interim Financial Statements.

4 Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company					
	Share Capital	Share premium ^{*)}	Hedge reserve	Translation reserve	Retained earnings	Total equity
Balance at 1 January 2013	6,691	317,178	(8,112)	473	87,518	403,748
Profit (loss) for the year					5,722	5,722
Total other comprehensive income			366	(214)		152
Dividend declared					(7,105)	(7,105)
Treasury shares sold	9	535				544
Value of services provided		153				153
Value of services provided released		(69)			69	-
	9	619	366	(214)	(1,314)	(534)
Balance at 31 March 2013	6,700	317,797	(7,746)	259	86,204	403,214
Profit (loss) for the year					14,898	14,898
Total other comprehensive income			2,427	(1,379)		1,048
<i>Employee share option scheme:</i>						
Treasury shares purchased	(43)	(4,107)				(4,150)
Treasury shares sold	70	4,068				4,138
Treasury shares, transaction costs		(13)				(13)
Value of services provided		245				245
Value of services provided released		(696)			655	(41)
	27	(503)	2,427	(1,379)	15,553	16,125
Balance at 31 December 2013	6,727	317,294	(5,319)	(1,120)	101,757	419,339
Profit (loss) for the year					(1,871)	(1,871)
Total other comprehensive income			323	526		849
<i>Employee share option scheme:</i>						
Treasury shares purchased	(5)	(473)				(478)
Treasury shares sold	4	256				260
Treasury shares, transaction costs		(1)				(1)
Value of services provided		36				36
Value of services provided released		(40)			37	(3)
	(1)	(222)	323	526	(1,834)	(1,208)
Balance at 31 March 2014	6,726	317,072	(4,996)	(594)	99,923	418,131

^{*)} Includes reserve for share based payments as per 31 March 2014 of EUR 1,245 (31 December 2013: EUR 1,250).

Dividends

No dividends were declared / paid in 2014.

In 2013 a dividend of EUR 7,105 (EUR 0.97 cent per share) was declared of which EUR 6,488 was paid in Q2 and EUR 617 withholding tax in Q3.

The notes on pages 7 - 14 are an integral part of the Condensed Consolidated Interim Financial Statements.

5 Condensed Consolidated Statement of Cash Flows

	Notes	YTD 2014	YTD 2013
Cash flows from operating activities			
Result from operations		1,019	10,331
<i>Adjustments to reconcile result from operations to net cash provided by operating activities:</i>			
Depreciation and impairment of property, plant and equipment	9	2,170	2,434
Amortisation and impairment of intangible assets	10	4,882	4,092
Gain on sale of property, plant and equipment		(11)	(26)
Changes in non current receivables		249	1,387
Working capital provided by / (used in) operating activities		8,309	18,218
<i>Changes in working capital:</i>			
Inventories and production contracts		2,350	9,190
Trade and other receivables		899	(14,078)
Trade and other payables		7,635	4,008
Provisions		189	(103)
Changes in operating assets and liabilities		11,073	(983)
Cash generated from operating activities		19,382	17,235
Taxes paid		(73)	478
Net Interest and finance costs		(3,964)	(4,247)
Net cash from operating activities		15,345	13,466
Cash flows from Investing activities			
Purchase of property, plant and equipment		(2,319)	(1,523)
Investments in intangibles		(4,952)	(5,987)
Proceeds from sale of property, plant and equipment		156	233
Net cash used in investing activities		(7,115)	(7,277)
Cash flows from financing activities			
Purchase of treasury shares		(218)	-
Sale of treasury shares		-	544
Proceeds from borrowings		7,000	4,909
Repayments of borrowings		(15,452)	(13,614)
Net cash used in financing activities		(8,670)	(8,161)
Net increase (decrease) in net cash		(440)	(1,972)
Exchange (loss) / gain on net cash		76	753
Net cash at beginning of the period		19,793	15,945
Net cash at end of the period		19,429	14,726

The notes on pages 7 - 14 are an integral part of the Condensed Consolidated Interim Financial Statements.

6 Notes to the Condensed Consolidated Financial Statements

1. General information

Marel hf. (the Company) is a limited liability company incorporated and domiciled in Iceland. The Company has its listing on the Nasdaq OMX Iceland.

These condensed consolidated interim financial statements have been approved for issue by the board of directors on 28 April 2014. The information included herein is not audited.

All amounts are in thousands of EUR, unless otherwise stated.

2. Basis of preparation

These condensed consolidated interim financial statements of the Company and its subsidiaries (the Group) are for the three months ended 31 March 2014. These have been prepared in accordance with IAS 34 as adopted by the EU. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013. The consolidated financial statements for the Group as for the period ended 31 December 2013 are available upon request from the Company's registered office at Austurhraun 9, Gardabær or at www.marel.com.

3. Accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2013, as described in the annual Financial Statements for the year ended 31 December 2013.

4. Financial risk management

The company's policy is to finance its operations in its revenue currencies. More than 99% of Marel's revenues originate outside of Iceland and there is a good currency balance between the company's revenues and costs. Efforts have been made to systematically reduce currency risk in the company's financing and to reduce interest cost.

5. Segment information

Operating segments

The segments comprise the industries, which form the basis for managerial decision taking. Results are monitored and managed at the level of the identified operating segments, up to the result from operations. Decisions on Tax and Financing structures are taken on corporate level therefore no financial income and expenses nor tax are allocated to operating segments. The measure of profit or loss per operating segment is provided as result from operations; finance costs and taxes are reported in the column Total.

Intercompany transactions are entered into under at arm's length terms and conditions comparable to those available to unrelated parties. Information on liabilities per operating segment is not provided to the chief operating decision maker and as such not included in this disclosure.

The 'Others' segment includes any business to customers outside the core industries as well as the holding companies.

The segment information for the period ended 31 March 2014 is as follows:

	Poultry	Fish	Meat	Further Processing	Others	Total
Third Party Revenues	79,779	25,113	28,590	18,052	3,223	154,757
Result from operations excluding refocusing .	6,275	1,450	(306)	(2,053)	(797)	4,569
Refocusing costs						(3,550)
Result from operations						1,019
Finance costs - net						(3,659)
Result before income tax						(2,640)
Income tax						769
Profit (loss) for the period						(1,871)
Assets	509,722	93,727	103,477	101,399	31,968	840,293
Depreciation and amortisation	(2,678)	(904)	(988)	(1,614)	(868)	(7,052)

The segment information for the period ended 31 March 2013 is as follows:

	Poultry	Fish	Meat	Further Processing	Others	Total
Third Party Revenues	77,185	26,807	25,769	25,204	3,063	158,028
Result from operations	9,711	160	(1,285)	1,382	363	10,331
Finance costs - net						(3,743)
Result before income tax						6,588
Income tax						(866)
Profit (loss) for the period						5,722
Assets	522,064	113,253	105,255	108,972	32,825	882,369
Depreciation and amortisation	(2,196)	(984)	(929)	(1,631)	(786)	(6,526)

6. Net finance costs

Finance costs:	YTD 2014	YTD 2013
Interest on borrowings	(2,666)	(3,164)
Interest on finance leases	(3)	(2)
Other finance expenses	(571)	(627)
Net foreign exchange transaction losses	(442)	(22)
Subtotal Finance costs	<u>(3,682)</u>	<u>(3,815)</u>
Finance income:		
Interest income	23	72
Subtotal Finance income	<u>23</u>	<u>72</u>
Net Finance costs	<u>(3,659)</u>	<u>(3,743)</u>

7. Income tax

Current tax	YTD 2014	YTD 2013
Deferred tax	(1,029)	(1,226)
	1,798	360
	<u>769</u>	<u>(866)</u>

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

Reconciliation of effective income tax	YTD 2014		YTD 2013	
		%		%
Result before income tax	<u>(2,640)</u>		<u>6,588</u>	
Income tax using Iceland rate	528	20.0	(1,318)	20.0
Effect tax rates in other jurisdictions	14	0.5	(683)	10.4
Weighted average applicable tax	542	20.5	(2,001)	30.4
FX effect Iceland	48	1.8	361	(5.5)
R&D tax incentives	235	8.9	757	(11.5)
Permanent differences	53	2.0	121	(1.8)
Tax losses (un)recognised	(389)	(14.7)	(211)	3.2
(Impairment)/reversal of tax losses	90	3.4	0	0.0
Effect of tax rate changes	187	7.1	0	0.0
Others	3	0.1	107	(1.6)
Tax charge included in the profit or loss for the period	<u>769</u>	29.1	<u>(866)</u>	13.2

8. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders 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.

Basic earnings per share (EUR cent per share)	YTD 2014	YTD 2013
Net profit (loss) attributable to shareholders	(1,871)	5,722
Weighted average number of outstanding shares in issue (thousands)	735,322	731,847
Basic earnings per share (EUR cent per share)	<u>(0.25)</u>	<u>0.78</u>

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

Diluted earnings per share (EUR cent)	YTD 2014	YTD 2013
Net profit (loss) used to determine diluted earnings per share	(1,871)	5,722
Weighted average number of outstanding shares in issue (thousands)	735,322	731,847
Adjustments for share options (thousands)	2,346	7,731
Weighted average number of outstanding shares for diluted earnings per share (thousands)	<u>737,668</u>	<u>739,578</u>
Diluted earnings per share (EUR cent)	<u>(0.25)</u>	<u>0.77</u>

9. Property, plant and equipment

	Land & buildings	Plant & machinery	Vehicles & equipment	Total
At 1 January 2014				
Cost	115,497	66,693	44,767	226,957
Accumulated depreciation	(35,746)	(48,959)	(37,545)	(122,250)
Net book amount	<u>79,751</u>	<u>17,734</u>	<u>7,222</u>	<u>104,707</u>

Three months ended 31 March 2014

Opening net book amount	79,751	17,734	7,222	104,707
Exchange differences	41	20	50	111
Additions	1,665	287	367	2,319
Disposals	-	5	(149)	(144)
Depreciation charge	(721)	(840)	(609)	(2,170)
Closing net book amount	<u>80,736</u>	<u>17,206</u>	<u>6,881</u>	<u>104,823</u>

At 31 March 2014

Cost	117,228	67,030	44,804	229,062
Accumulated depreciation	(36,492)	(49,824)	(37,923)	(124,239)
Net book amount	<u>80,736</u>	<u>17,206</u>	<u>6,881</u>	<u>104,823</u>

Depreciation of property, plant and equipment analyses as follows in the Condensed Consolidated Statement of Comprehensive income:

	YTD 2014	YTD 2013
Cost of sales	1,393	1,481
Selling and marketing expenses	186	219
Research and development expenses	105	113
Administrative expenses	486	621
	<u>2,170</u>	<u>2,434</u>

10. Intangible assets

	Goodwill	Developm. costs	Patents & Trade name	Other Intangibles	Total other Intangibles
At 1 January 2014					
Cost	378,708	122,537	50,512	22,792	195,841
Accumulated depreciation	-	(47,630)	(19,182)	(10,468)	(77,280)
Net book amount	378,708	74,907	31,330	12,324	118,561
Three months ended 31 March 2014					
Opening net book amount	378,708	74,907	31,330	12,324	118,561
Exchange differences	72	61	18	5	84
Additions	-	4,541	-	411	4,952
Amortisation charge	-	(3,281)	(868)	(733)	(4,882)
Closing net book amount	378,780	76,228	30,480	12,007	118,715
At 31 March 2014					
Cost	378,780	127,192	50,542	23,226	200,960
Accumulated amortisation	-	(50,964)	(20,062)	(11,219)	(82,245)
Net book amount	378,780	76,228	30,480	12,007	118,715

Amortization of intangible assets analyses as follows in the Condensed Consolidated Statement of Comprehensive income:

	YTD 2014	YTD 2013
Cost of sales	25	25
Selling and marketing expenses	87	87
Research and development expenses	3,592	2,910
Administrative expenses	1,178	1,070
	<u>4,882</u>	<u>4,092</u>

Impairment of Goodwill

The Group has tested end 2013 whether goodwill has suffered any impairment. At the closing of Q1 2014, there are no reasons to deviate from the conclusions taken at year-end.

11. 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:

At 1 January 2014	(4,274)
Exchange differences and changes w within the Group	26
Consolidated Statement of Comprehensive Income charge (excluding rate change)	1,611
Effect of change in tax rates	187
Hedge reserve & translation reserve directly booked through equity	(118)
At 31 March 2014	<u>(2,568)</u>

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

	31/03 2014	31/12 2013
Deferred income tax assets	10,679	9,611
Deferred income tax liabilities	(13,247)	(13,885)
	<u>(2,568)</u>	<u>(4,274)</u>

12. Inventories

There were no material reversals of write-downs to fair value. Any write-downs concluded from a recoverability analysis are recognized in Cost of sales.

13. Equity

Share Capital	Ordinary shares (thousands)	Treasury shares (thousands)	Outstanding number of shares (thousands)
At 1 January 2013	735,569	(4,129)	731,440
Treasury shares - sold	-	988	988
At 31 March 2013	<u>735,569</u>	<u>(3,141)</u>	<u>732,428</u>
Treasury shares - purchased	-	(4,700)	(4,700)
Treasury shares - sold	-	7,724	7,724
At 1 January 2014	<u>735,569</u>	<u>(117)</u>	<u>735,452</u>
Treasury shares - purchased	-	(600)	(600)
Treasury shares - sold	-	475	475
At 31 March 2014	<u>735,569</u>	<u>(242)</u>	<u>735,327</u>
Class of share capital:		31/03 2014	31/12 2013
Nominal value		6,726	6,727
Share premium		315,827	316,044
Reserve for share based payments		1,245	1,250
Total share premium reserve		<u>317,072</u>	<u>317,294</u>

The total authorized number of ordinary shares is 735.6 million shares (2013: 735.6 million shares) with a par value of ISK 1 per share. All issued shares are fully paid.

14. Borrowings

Non-current:	31/03 2014	31/12 2013
Bank borrowings	209,140	214,822
Finance lease liabilities	7	24
	<u>209,147</u>	<u>214,846</u>
Current:		
Bank borrowings excluding bank overdrafts	18,681	21,857
Finance lease liabilities	6	220
	<u>18,687</u>	<u>22,077</u>
Total borrowings	<u>227,834</u>	<u>236,923</u>
Secured bank loans	227,821	236,679
Finance lease liabilities	13	244
Total borrowings	<u>227,834</u>	<u>236,923</u>

Liabilities in currency recorded in EUR	Finance lease liabilities	Capitalised finance charges	Other borrowings	Total 31/03 2014	Total 31/12 2013
Liabilities in DKK	-	-	-	-	3,311
Liabilities in EUR	4	(3,518)	134,500	130,986	136,509
Liabilities in USD	-	(1,314)	98,153	96,839	97,056
Liabilities in other currencies	9	-	-	9	47
	<u>13</u>	<u>(4,832)</u>	<u>232,653</u>	<u>227,834</u>	<u>236,923</u>
Current matures	(6)	1,318	(19,999)	(18,687)	(22,077)
	<u>7</u>	<u>(3,514)</u>	<u>212,654</u>	<u>209,147</u>	<u>214,846</u>

15. Contingencies

At 31 March 2014 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 21,436 (31 December 2013: EUR 18,842) to third parties.

16. Related party transactions

At the end of March 2014, there are no loans to directors (31 December 2013: EUR nil).

17. Subsequent events

None.

18. Quarterly results

	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Revenue	154,757	168,182	156,896	178,430	158,028
Cost of sales	(102,608)	(109,594)	(98,866)	(118,913)	(100,519)
Gross profit	52,149	58,588	58,030	59,517	57,509
Selling and marketing expenses	(25,807)	(24,447)	(21,871)	(24,715)	(24,072)
Research and development expenses	(12,459)	(11,537)	(10,728)	(10,926)	(11,197)
Administrative expenses	(12,867)	(15,273)	(12,615)	(11,514)	(11,911)
Other operating income / (expenses)	3	79	38	(48)	2
Result from operations (EBIT)	1,019	7,410	12,854	12,314	10,331
Finance costs	(3,682)	(4,966)	(4,706)	(5,940)	(3,815)
Finance income	23	97	54	140	72
Net finance costs	(3,659)	(4,869)	(4,652)	(5,800)	(3,743)
Result before income tax	(2,640)	2,541	8,202	6,514	6,588
Income tax	769	1,160	(2,225)	(1,294)	(866)
Profit (loss) for the period	(1,871)	3,701	5,977	5,220	5,722
Profit before deprec. & amortisation (EBITDA)	8,071	14,086	19,523	18,978	16,857