Marel hf

Consolidated Financial Statements
June 30, 2003

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The Board and Managing Director's Report

The Board of Directors and Managing Director of Marel hf hereby ratify the interim Financial Statements of Marel hf for the period January 1 to June 30, 2003 with their signatures

Reykjavík, August 12, 2003

Benedikt Sveinsson
Þorkell Sigurlaugsson
Arnar Þór Másson
Heimir Haraldsson
Þórólfur Árnason

Managing Director

Hörður Arnarson

Auditor's report

To the board and shareholders of Marel hf

We have reviewed the interim Financial Statements of Marel hf and subsidiaries for the period January 1 - June 30, 2003. The Consolidated Financial Statements consist of a profit and loss account, a balance sheet, a statement of cash flow, summary of accounting policies and notes 1 - 13. These Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Financial Statements based on our review. The interim Financial Statements of foreign subsidiaries have been reviewed by other auditors.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review we are not aware of any material modifications that should be made to the Consolidated Financial Statements of Marel hf in order for them to present fairly the results of its operations for the period January 1 - June 30, 2003, the financial position at end of period and changes in its cash position in accordance with law, the company's statutes and generally accepted accounting standards.

Reykjavik, August 12, 2003

PricewaterhouseCoopers ehf

Gunnar Sigurðsson
Ólafur Þór Jóhannesson

Financial Ratios

	2003 1.1-30.6	2002 1.1-30.6	2002 1.1-31.12	2001 1.1-31.12	2000 1.1-31.12	1999 1.1-31.12
Operating results						
Operating income	56.044	52.663	104.009	97.211	79.391	74.355
Operating profit	3.711	2.437	2.278	5.979	4.528	5.995
Net profit (loss)	2.400	1.288	50	2.106	(117)	4.306
Financial trends						
Funds from operations	3.693	1.983	2.373	4.606	5.300	5.708
Investing activities	(1.033)	(12.679)	(17.959)	(12.585)	(13.321)	620
Profit before depreciation (EBITDA)	5.321	3.694	5.469	8.174	6.383	7.487
Financial position						
Total assets	87.237	82.361	82.602	68.829	62.050	41.322
Working capital	11.654	10.096	12.740	14.978	22.458	14.840
Equity	24.199	24.003	22.724	23.654	23.722	11.256
Various figures in proportion to turnover						
Bought material	34,5%	29,2%	32,8%	33,0%	33,0%	37,8%
Wages and benefits	39,3%	41,4%	42,1%	39,4%	40,3%	35,2%
Other operating expenses	16,7%	22,4%	19,9%	19,2%	18,7%	17,0%
Profit before depreciation (EBITDA)	9,5%	7,0%	5,3%	8,4%	8,0%	10,1%
Depreciation	2,9%	2,4%	3,1%	2,3%	2,3%	2,1%
Net income	4,3%	2,4%	0,0%	2,2%	-0,1%	5,8%
Other key ratios						
Current ratio	1,3	1,3	1,4	1,6	2,0	1,8
Quick ratio	0,7	0,7	0,7	0,8	1,3	1,1
Equity ratio	27,7%	29,1%	27,5%	34,4%	38,2%	27,2%
Return on owners' equity	21,1%	10,9%	0,2%	9,4%	-1,0%	65,6%

Amounts 1999 - 2001 are translated from Icelandic kronur into the currency of EUR based on average exchange rate of each year for the operating items but the year end rate for the balance sheet items.

Profit and Loss Account, January - June 2003

	Notes	2003 1.4 - 30.6	2002 1.4 - 30.6	2003 1.1 - 30.6	2002 1.1 - 30.6
Operating revenues					
Sales of goods and services		30.319	26.301	54.285	51.253
Changes in work in progress and finished		893	(477)	622	358
Other income		736	681	1.137	1.052
		31.948	26.505	56.044	52.663
Operating expenses					
Bought material		12.341	7.499	19.346	15.382
Wages and benefits		11.304	10.860	22.003	21.804
Other operating expenses		4.767	6.114	9.374	11.783
Depreciation	6	812	620	1.610	1.257
		29.224	25.093	52.333	50.226
Operating profit		2.724	1.412	3.711	2.437
Financial income (expenses)	1				
Interest and exchange rate difference on long-term liabilities		(106)	685	(234)	393
Other financial income and expenses		(50)	(897)	(183)	(1.164)
		(156)	(212)	(417)	(771)
Profit on ordinary activities before taxation		2.568	1.200	3.294	1.666
Income tax	10	(825)	(374)	(867)	(330)
Net worth tax		(8)	(23)	(27)	(48)
		(833)	(397)	(894)	(378)
Net profit		1.735	803	2.400	1.288

Balance Sheet as of June 30, 2003

Assets	Notes	30.6 2003	31.12 2002
Fixed assets			
Intangible assets:			
Product development costs	2	500	500
Long-term costs	3	238	307
Goodwill	4	3.599	3.699
		4.337	4.506
Tangible fixed assets:	6		
Buildings and premises		25.659	25.676
Machinery and equipment		5.198	5.450
Fixtures and fittings		1.539	1.669
Other assets		1.491	1.668
		33.887	34.463
Investments and long-term debtors:			
Deferred tax assets	10	1.190	1.603
Shares in other companies	5	760	765
		1.950	2.368
Total fixed assets		40.174	41.337
Current assets			
Stock	7	22.009	20.187
Trade debtors	8	15.900	15.723
Other debtors and prepayments		3.111	2.464
Cash and cash equivalents		6.043	2.891
		47.063	41.265
Total assets		87.237	82.602

Balance Sheet as of June 30, 2003

Equity and liabilities	Notes	30.6 2003	31.12 2002
Shareholders' equity	9		
Share capital		2.581	2.601
Share premium		10.906	11.293
Translation difference		(919)	(681)
Retained earnings		11.631	9.511
		24.199	22.724
Liabilities			
Commitments:			
Deferred income tax liability	10	650	969
Contingent liabilities		634	611
		1.284	1.580
Long-term liabilities	11		
Debentures		2.843	7.599
Financial institutions borrowings		23.502	22.174
		26.345	29.773
Current liabilities			
Financial institutions borrowings		9.684	4.622
Trade creditors		6.455	7.554
Other current creditors		7.195	6.873
Prepaid income		5.824	2.532
Current portion of long-term liabilities	11	5.523	6.755
Accrued taxes payable		728	189
		35.409	28.525
Total liabilities		63.038	59.878
Total equity and liabilities		87.237	82.602
Mortgages	12		
Commitments and other information	13		

Cash flow statement 1/1-30/6 2003

	2003 1.1 - 30.6	2002 1.1 - 30.6
Cash flows from operating activities		
Cash generated from operations:		
Net profit	2.400	1.288
Items not affecting cash:		
Depreciation	1.610	1.257
Amortisation of product development	126	122
Other items	(443)	(684)
	3.693	1.983
Decrease (increase) in operating items:		
Trade debtors and other debtors	(852)	(2.057)
Stock	(1.822)	(1.233)
Current liabilities	3.081	1.342
	407	(1.948)
Net cash from operating activities	4.100	35
Cash flows from investing activities		
Purchase of tangible fixed assets	(947)	(10.628)
Proceeds from sale of tangible fixed assets	91	1.698
Purchase of shares in other companies	0	(3.528)
Capitalised product development cost	(126)	(122)
Capitalised long-term cost	(51)	(99)
	(1.033)	(12.679)
Cash flows from financing activities		
New long-term liabilities	0	9.847
Repayments of long-term liabilities	(4.291)	(1.116)
Changes in short-term borrowings	5.061	3.630
Dividends paid	(280)	(390)
Changes in own shares	(405)	(133)
	85	11.838
Increase (decrease) in cash	3.152	(806)
Cash at beginning of year	2.891	3.510
Cash at end of period	6.043	2.704

Accounting Policies

The interim Consolidated Financial Statements for Marel hf are made in accordance with the Financial Statements Act. The principal accounting policies adopted in the preparation of these Financial Statements are mainly the same as last year except as described in this chapter.

Changes in currency and accounting policies

In accordance with International Accounting Standards and changes in the Financial Statements Act translation difference, due to translation of the company's foreign subsidiaries, which have integrated operation with the parent company, has been included in the income statement in stead of reporting it in a separate component of equity. In subsidiaries with integrated operation, the translation difference arises because monetary assets and liabilities are translated using the exchange rate at the end of the period. Equity and fixed assets at the beginning of the year are translated into the EURO currency using the prior year-end exchange rate but new investments are stated using the exchange rate at the transaction date. Amounts in the income statement are translated using average exchange rate of the EURO currency for the period, except for depreciation of fixed assets. Due to these changes an exchange rate difference of EUR 111 thousand has been recorded in the profit and loss account.

The Group's Financial Statements

The interim Consolidated Financial Statements of Marel hf include the interim Financial Statements for Marel hf, and its subsidiaries. The subsidiaries, all totally owned by Marel hf, are Marel Australia Pty Ltd, Marel Equipment Inc., Marel France SA, Marel Scandinavia A/S, Marel UK Ltd., Marel USA Inc., Marel Management GmbH, Marel TVM GmbH & Co KG and Carnitech A/S.

Operational items of subsidiaries, that do not report their Financial Statements in the EURO currency and do not have integrated operation with that of the parent company, are translated into the EURO currency using the average exchange rate of the EURO for the period but balance sheet items are translated into EURO using the period-end rate of exchange. The adjustments from translation are reported in a separate component of equity. The translation procedures of subsidiaries with integrated operation with that of the parent company is in accordance with description earlier in the chapter about changes in accounting policies.

The interim Financial Statements of the Group have been prepared by adding together like items of assets, liabilities, income and expenses from the interim Financial Statements of individual Group companies but eliminating unrealised gain and intragroup balances, transactions and investments.

Valuation methods

When preparing the Financial Statements, managers need to value various items in connection with the interim Financial Statements. The valuation methods conform with generally accepted accounting principles. The final outcome, for example from the sale or recognition of the items relating to the valuation, may however be different from the outcome of the valuation.

Assets and liabilities index linked or in foreign currency

Index linked assets and liabilities are stated using indexes that were valid at the beginning of July 2003. Assets and liabilities in other currency than Euro are translated into the currency of Euro at the June-end rates of exchange. Exchange rate differences from monetary assets and liabilities are recorded in Marel hf profit and loss account.

Accounting Policies

Profit and loss account

Revenue recognition

Sales revenue recognition is on delivery of goods and services. Revenue from ordered work in progress are in addition recognised at selling price as the work progresses.

Changes of work in progress and finished goods

Changes of work in progress and finished goods shows the increase or decrease in value of this stock during the period.

Other income

Other income consists of sold development work, including rental of equipment and miscellaneous income.

Calculated income tax

Income tax based on the period's profit or loss has been calculated and is stated in the profit and loss account.

Balance sheet

Product development cost

The company's research and development cost for new and saleable products is partly capitalised in the interim Financial Statements. This cost will be amortised in three years. Other research and development cost is charged to income as it occurs.

Long-term cost

Capitalised long-term cost consists of the cost of gaining patents. This cost will be amortised over a period of three years.

Goodwill

The goodwill arises due to Carnitechs A/S acquisition of the operation of OL - Tool Production in year 2001 and their acquisition of CP Food Machinery in the beginning of year 2002 and is calculated as difference on acquisition and appraisal price on building, fixtures and equipments included in the acquisition. The goodwill will be amortised over a period of 20 years.

Accounting Policies

Tangible fixed assets

Depreciation is calculated on the straight line method to write off the cost of each asset. The depreciation period on buildings is 40 year, but 3 - 10 year on other tangible fixed assets.

Finance leases

Marel hf, and its subsidiaries have made some finance lease agreements for the purchase of motor vehicles, machinery and equipment. Though the ownership of these assets are with the lessor, they have been capitalised in the balance sheet with other tangible fixed assets and are depreciated in the same way. The obligation under the capital leases have been stated among long-term liabilities at their present value.

Investments in other companies

Ownership in Eignarhaldsfélag hlutafélaga ehf is stated at purchase price, revalued to the year end 2001. Ownership in Stáltak hf is stated at nominal value and ownership in Arbor SA at purchase price.

Stock

Stock of raw material and spare parts are valued at purchase price.

Cost of finished goods and work in progress consists of direct wages and material cost and indirect production cost.

Stock of ordered work in progress has been valued at selling price as work progresses. Down payments from customers are deducted from the value of work in progress of ordered goods, according to the balance sheet.

Work in progress is valued at market price if expected selling price after deducting cost of full production and sale (market price) is lower than production cost price at year-end.

Trade debtors

Trade debtors are valued at nominal value, less allowance for doubtful accounts receivable. The allowance is based on an assessment of individual accounts.

Cash and cash equivalents

Cash at the beginning and end of the period according to the statement of cash flows includes cash and current bank deposits.

Accounting Policies

Deferred income tax liability (assets)

Income tax based on the period's profit has been calculated and included in the profit and loss account. The difference of income tax calculated that way, and income tax calculated on the base of taxable profit of the period which is payable next year, is stated with liabilities in the balance sheet as deferred income tax liability.

This difference arises because taxable profit according to the company's tax return is based on another assumption than profit before taxation according to the company's profit and loss account. The main reason for this is time difference because expenses, especially depreciation, are normally charged earlier in tax returns than in the profit and loss account.

Deferred tax assets, due to tax losses carried forward and tax deductible temporary differences, are recognised to the extent that it is probable that future taxable profit will be available, against which deferred tax assets can be utilised.

Deferred income tax liability generally reflects the income tax which would be payable according to current tax law if the company's assets were to be sold or redeemed at book value.

Contingent liabilities

In addition to what has been allocated to a reserve due to known warranty repairs, a proportion of last year's sale has also been allocated to a general warranty fund.

Comparative year's figures

Comparative year's figures have been changed in accordance with a change in presentation of this period when appropriate.

Notes

1. Financial income (expenses)

	Long-term liabilities	Other items	Total 1.1-30.6 2003	Total 1.1-30.6 2002
Interest and indexation income	0	136	136	31
Interest and indexation expenses	(798)	(149)	(947)	(994)
Exchange rate differences	564	(170)	394	246
Shares in companies written down		0	0	(54)
	(234)	(183)	(417)	(771)

2. Product development

	30.6 2003	31.12 2002
Product development 1/1	500	500
Addition in the period	126	243
Amortisation of the period	(126)	(243)
	500	500

3. Long-term costs

Long-term cost 1/1	307	281
Addition in the period	51	250
Amortisation of the period	(120)	(224)
	238	307

4. Goodwill

Goodwill 1/1	3.699	396
Exchange rate difference	(2)	3
Addition in the period	0	3.491
Amortisation of the period	(98)	(191)
	3.599	3.699

5. Shares in other companies

	Ownership	Nominal value in thousands	Book value in thousands
Eignarhaldsfélag hlutafélaga ehf	1,43%	ISK 329	5
Stáltak hf	9,03%	ISK 13.235	152
Arbor SA	50,00%	EUR 168	603
			760

Notes

6. Tangible fixed assets

Changes in net value of tangible fixed assets:

	Buildings and premises	Machinery and equipment	Fixtures and fittings	Other assets	Total
Revalued cost 1/1	26.625	10.663	3.355	4.381	45.024
Exchange rate difference	(5)	(54)	(42)	(6)	(107)
Additions	329	314	122	182	947
Sales	0	(35)	(25)	(173)	(233)
Total value 30/6	26.949	10.888	3.410	4.384	45.631
Acc. depr. 1/1	949	5.213	1.686	2.713	10.561
Exchange rate difference	0	(41)	(26)	(6)	(73)
Depreciation	341	530	231	290	1.392
Sales	0	(12)	(20)	(104)	(136)
Total depreciation 30/6	1.290	5.690	1.871	2.893	11.744
Net book value 30/6 2003	25.659	5.198	1.539	1.491	33.887

Depreciation charged to the profit and loss account analyses as follows:

Depreciation of tangible fixed assets	1.392
Amortisation of long-term costs	120
Amortisation of goodwill	98
	1.610

7. Stock

	30.6 2003	31.12 2002
Raw materials and spare parts	10.171	9.475
Work in progress	3.074	1.550
Ordered work in progress	4.833	3.855
Finished goods	3.931	5.307
	22.009	20.187

8. Trade debtors

Domestic trade debtors	216	471
Foreign trade debtors	15.684	15.252
	15.900	15.723

Notes

9. Equity

Share capital

Total share capital of the company amounted to ISK 240 million at the end of September 2002 of which ISK 5 million were owned by the company itself.

Changes in shareholders' equity

	Share capital	Share premium	Translation difference	Retained earnings	Total
Balance 1/1	2.601	11.293	(681)	9.511	22.724
Bought own shares	(20)	(387)			(407)
Translation difference of					0
shares in foreign com.			(238)		(238)
Dividend paid				(280)	(280)
Net profit				2.400	2.400
Balance 30/6	2.581	10.906	(919)	11.631	24.199

10. Deferred income tax liability (assets)

Change in deferred income tax liability analysis as follows:

Deferred income tax liability (asset) at beginning of period	(634)
Exchange rate difference due to foreign subsidiaries	(11)
Income tax on regular operation	867
Income tax payable	(762)
	(540)
Deferred income tax assets stated with investments and other long-term debtors	1.190
	650

Deferred income tax liability (assets) analyses on the following items:

Tangible fixed assets	953
Goodwill	(156)
Taxable loss carried forward	(1.588)
Other items	251
	(540)

Notes

11. Long-term liabilities

Liabilities in foreign currency	
Liabilities in DKK	5.892
Liabilities in EUR	21.695
Liabilities in JPY	1.117
Liabilities in USD	2.969
Liabilities in other currency	106
	31.779
Liabilities, index-linked in ISK	89
	31.868
Current maturates	(5.523)
	26.345

Annual maturates of the company's long-term liabilities are as follows:

Period 1/7 2003 - 30/6 2004	5.523
Period 1/7 2004 - 30/6 2005	4.637
Period 1/7 2005 - 30/6 2006	4.575
Period 1/7 2006 - 30/6 2007	1.365
Period 1/7 2007 - 30/6 2008	5.933
Later	9.835
	31.868

12. Mortgages

Loans amounting to EUR 15,7 million are secured with mortgages and pledges against the group's buildings. Loans with an outstanding balance of EUR 10,5 million are secured with mortgages and pledges against the groups other assets.

13. Commitments and other information

The Group has made some rental agreements for building, motor vehicles and office equipment, now with the remaining balance of EUR 1,8 million. The amount will be charged at the relevant rental time of each agreement. The rental agreements will materialise in the years 2003 - 2007.

The Group has bought a work stoppage insurance which will cover work stoppage for up to 12 months, based on terms of assets insurance agreement. The insurance benefits amounts up to EUR 45 million. The Group insurance value of buildings amounts to EUR 24,3 million, production machinery and equipment including software and office equipment amounts to EUR 19,6 million and stock to EUR 16,5 million.