ANNUAL REPORT 2002


Marel

Index

Marel hf. Board of Directors
Benedikt Sveinsson, Chairman
Þorkell Sigurlaugsson
Arnar Þór Másson
Heimir Haraldsson
Þórólfur Árnason

Alternates:
Andri Teitsson
Friðrik Jóhannsson

Managing Director
Hörður Arnarson

State Certified Public Accountant
PricewaterhouseCoopers ehf
Gunnar Sigurðsson

Marel hf.
Annual Report 2002
20th Operational Year
Annual General Meeting,
28 February 2003

Performance in 2002

The year 2002 was an eventful one for Marel, a year of expansion as the company strengthened its production and marketing capabilities with a new headquarters in Iceland and new companies abroad. Marel is well prepared to tackle additional projects as it continues to be among the leading companies that service the international food industry, even though 2002 was characterized by difficult conditions on the company's main markets. Recession and uncertainty in the global economy have affected those companies that sell producer goods on international markets. Marel was subjected to this downturn and measures were implemented by Marel's subsidiaries to deal with these conditions.

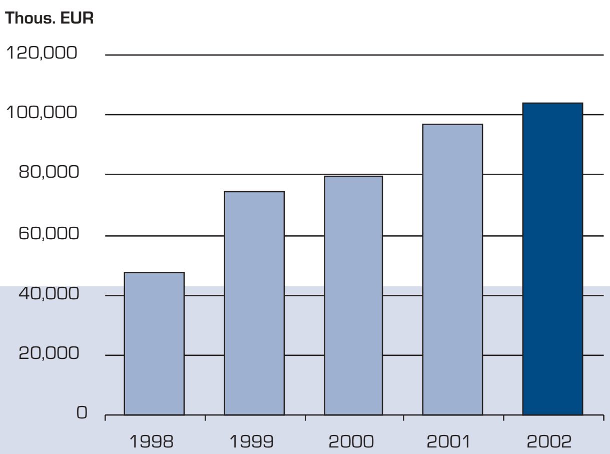
Marel's Financial Statements for 2002 are now presented in euros, which is the Group's operational currency, and inflation accounting was discontinued at the beginning of 2002. Comparative figures from previous years have been adjusted to these changes. Apart from these changes, the same basic accounting methods used last year are incorporated.

The following is a discussion concerning the Marel Group's operations, financial position and cash flow. The Financial Statements are on pages 21 – 37.

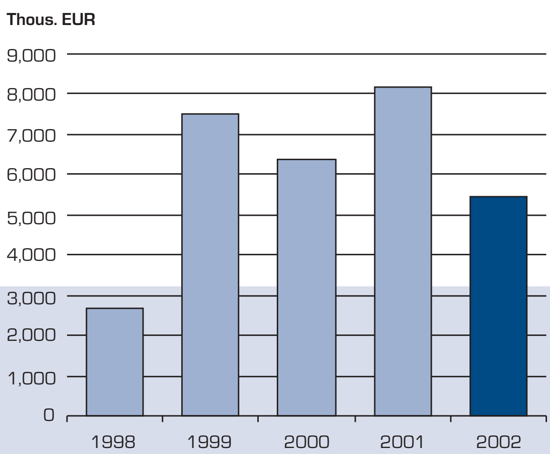
Operating income and operating expenses 2002
Operating income for 2002 totalled 104.0 million euros, compared with 97.2 million the previous year. Operating income has therefore increased by about 7.0%. The Group's operations were affected by the entry of two new companies at the start of 2002: Marel Australia, a sales and service company located in Brisbane, Australia, and Danish company CP Food Machinery that was purchased by Carnitech, a Marel subsidiary.

Operating expenses excluding financial items totalled 101.7 million euros, compared to 91.2 million euros in 2001, an increase of 11.5%. The contribution margin for fixed costs, i.e. the difference between operating revenue and bought material, increased by about 4.7 million euros, or 7.3%. Wages and benefits increased by about 5.4 million euros because of new companies and general wage increases, particularly in Iceland.

Operating revenue



Operating profit before depreciation, EBITDA



As a ratio of operating revenue, the main operating items are as follows:

	4 Q 2002	4 Q 2001	Year 2002	Year 2001
Bought material	35.1%	37.4%	32.8%	33.0%
Wages & benefits	39.8%	36.7%	42.1%	39.4%
Other operating costs	14.6%	16.8%	19.9%	19.2%

Measures taken during the latter part of the year have led to reductions in bought material and other operating costs. The affect of staff reductions, however, will not be fully reflected in operating costs until the beginning of 2003.

Although conditions are temporarily difficult on the company's markets, this has not affected the development of new products. Revenue expenditures for product development charged to the parent company, Carnitech and Marel TVM totalled about 6.2 million euros in 2002, compared with 5.5 million euros in 2001, an increase of 13%.

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

	4 Q 2002	4 Q 2001	Year 2002	Year 2001
EBITDA in thous.	2,982	2,843	5,469	8,174
EBITDA as a % of revenue	10.5%	9.1%	5.3%	8.4%
EBIT in thous.	2,117	2,202	2,278	5,979
EBIT as a % of revenue	7.5%	7.1%	2.2%	6.2%

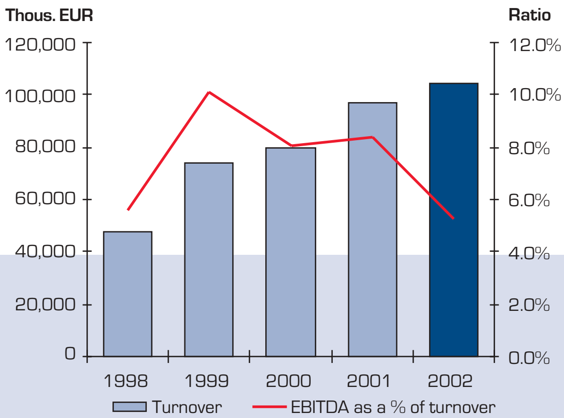
Financial expenses above financial income totalled 2.0 million euros, compared with 2.1 million in 2001.

The Group's debts increased by about 14.7 million euros, or about 33% from the beginning to the end of 2002. Lower interest rates and gains on foreign exchange on debts in currencies other than euros resulted in cost of capital remaining virtually unchanged between the years.

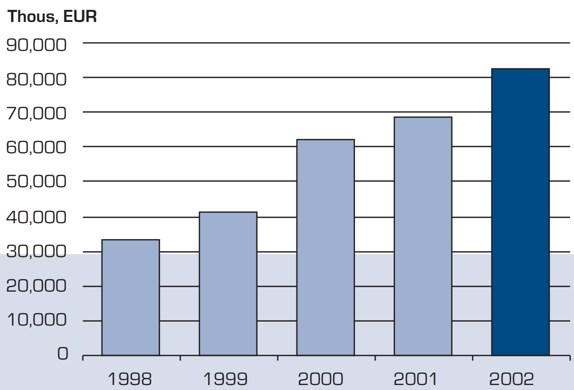
Income tax was 179 thousand euros, compared with 1.6 million the previous year. Property tax was 74 thousand euros, a reduction of about 163 thousand euros from the year before due to a reduction in the property tax rate from 1.2% to 0.6%, and a reduction in owner's equity.

Marel hf's performance for 2002 was at break-even. Profit for 2002 totalled 50 thousand euros. This is unacceptable, which is in particular the result of difficulties being experienced on the company's markets. A significant turnaround occurred in the 4th quarter, which is the direct result of measures taken to reduce costs at most of the Group's subsidiaries.

Operating profit before depreciation (EBITDA) as a % of turnover



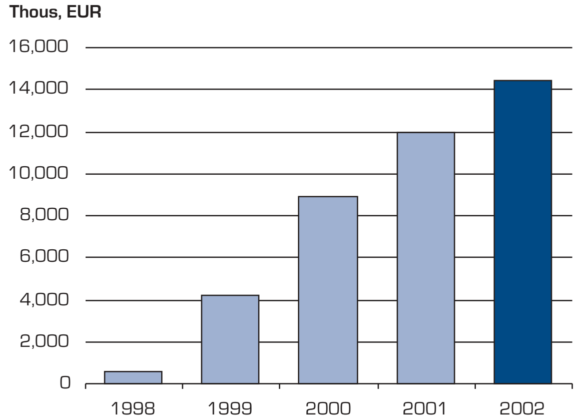
Total assets



Group operations in million euros:

	1. Q	2. Q	3. Q	4. Q	Total
Operating revenue	26,2	26,5	23,0	28,3	104,0
Operating expenses	25,1	25,1	25,3	26,2	101,7
Operating profit (EBIT)	1,1	1,4	(2,3)	2,1	2,3
EBIT %	3.9%	5.3%	(9.9%)	7.5%	2.2%
Net financial expenses	(0,6)	(0,2)	(0,7)	(0,5)	(2,0)
Calculated taxes, etc.	-	(0,4)	0,6	(0,4)	(0,2)
Profit/(loss)	0,5	0,8	(2,4)	1,2	0,1

Investment in fixed assets



Assets and Liabilities at the end of 2002

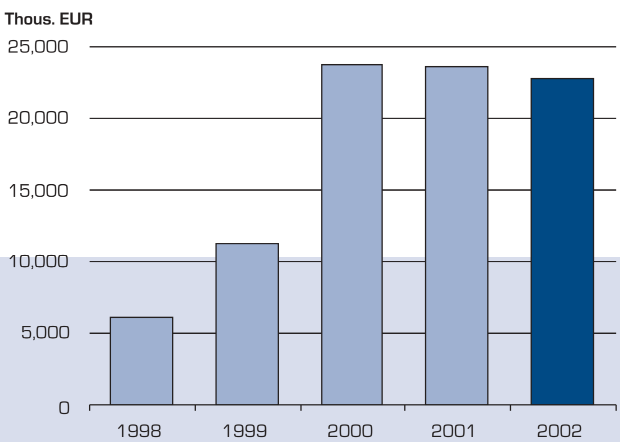
Marel's total assets at the end of 2002 were entered at 82.6 million euros, an increase of 13.8 million or 20% from the previous year, of which the largest increase was in real estate, for example the company's new headquarters in Garðabær and new production equipment. A total of 9.9 million euros was earmarked for this construction in 2002, while capital goods for the Group totalled 2.5 million.

Goodwill resulting from Carnitech's purchase of Danish company CP Food Machinery–3.5 million euros–is capitalised and depreciated over 20 years. Investment by the Group in permanent operational assets totalled 14.4 million euros during 2002, compared with 11.9 million the year before.

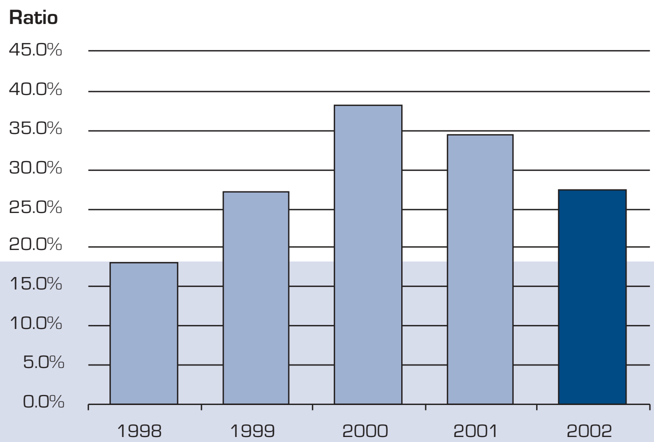
The value of inventory at year's end totalled 20.2 million euros, a rise of 4.3% in 2002. During the same time, there was a 7% increase in operating income.

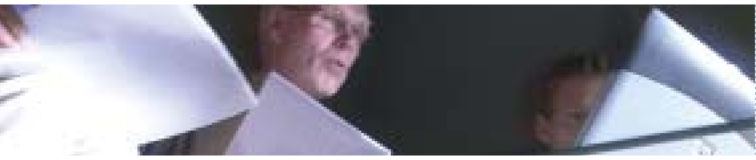
Accounts receivable totalled 15.7 million euros, and remained virtually unchanged from the start to the end of 2002. Allocated customers' credit was on average 54 days in 2002, compared with 52 days in 2001.

Owner's equity

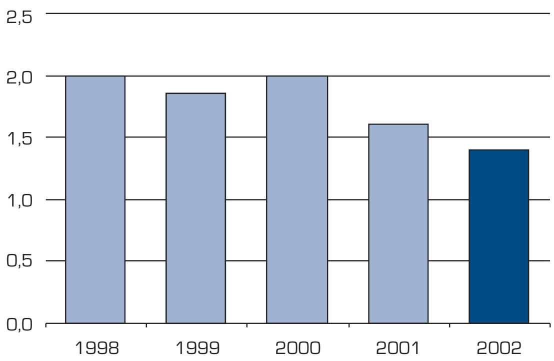


Equity ratio

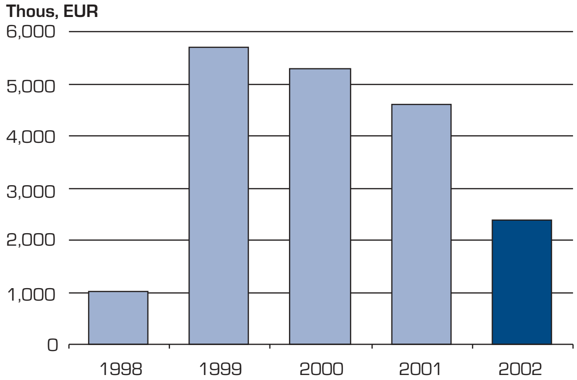




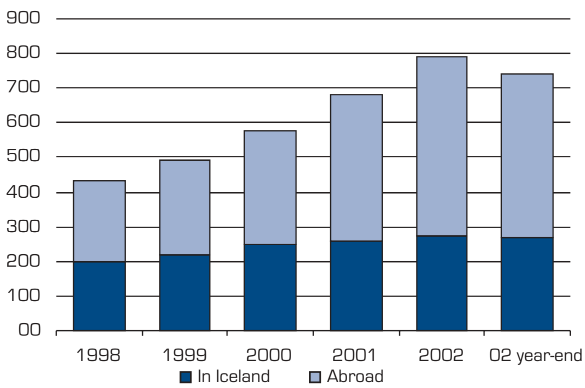
Current ratio



Working capital from operating activities



Average no. of employees during year



Debts at the end of 2002 totalled 59.9 million euros, an increase of 14.7 million or 32%. Included is 16.2 million in new long-term liabilities above installments, while accounts payable decreased by 2.2 million.

Owner's equity at the end of 2002 was 22.7 million, a decrease of 0.9 million during the year. The change is itemised in thousands/euros:

	2002	2001
Profit/(loss)	50	2,018
Revaluation and inflation adjustment	(681)	2,053
Purchase of own shares	(133)	(858)
Paid dividend	(390)	(263)
Other	224	224
(Decrease)/increase in own equity	(930)	3,174

The equity ratio at the end of 2002 was 27.5%, compared to 34.4% the previous year. The current ratio was 1.4, compared to 1.6 at the end of 2001.

Cash flows

Working capital from operating activities was 2,373 million euros in 2002, compared to 4,606 million in 2001. Cash at the end of 2002 totalled 2.9 million euros, compared with 3.5 million at the end of 2001.

Employees

Employees of the Marel Group averaged 792 during 2002, compared with 679 in 2001. At the end of 2002, employees totalled 741. Of these, 266 worked in Iceland and 475 abroad. Employees in Iceland have increased by 3, while they decreased by 2 abroad from the beginning to the end of the year. The Group's workforce peaked in the middle of the year at 814. Since then, they have declined by 73.

Annual General Meeting 2002

Marel hf's Annual General Meeting for the operating year 2001 was held on 20 March 2002 at Grand Hótel in Reykjavík. The meeting consisted of general business. The Chairman introduced the report covering the main aspects of company operations and prospects. The Managing Director discussed the Financial Statements for Marel and its subsidiaries. The Financial Statements were agreed to unanimously. It was also agreed to pay a dividend to shareholders of 15%. A Board of Directors was elected, comprising Benedikt Sveinsson, Arnar Þór Másson, Heimir Haraldsson, Þorkell Sigurlaugsson and Þórólfur Árnason.

Elected alternates were Andri Teitsson and Friðrik Jóhannsson. Gunnar Sigurðsson of PricewaterhouseCoopers ehf was elected as certified auditor.

A proposal was passed permitting the Board to purchase Marel's shares for up to ISK 10 million at par value.

Icelandic Fisheries Exhibition 2002

Marel hf. received an award at the Icelandic Fisheries Exhibition for the best new production equipment, as well as for being the best manufacturer of products and services in the fisheries industry.

SERVICE IS PARAMOUNT

Stock

The Iceland Stock Exchange's ICEX-15 index (main share index) increased by 17.8% from the start of 2002 to the end of January 2003. During this period, Marel hf's share price declined by 32.7%. Marel's listed share price at the start of 2002 was 26, and had declined to 17.50 by the end of January 2003.

Listed trading with Marel shares totalled 2,371 million króna in 2002, compared with 3,048 million in 2001. This figure accounted for 0.7% of listed trading on the Iceland Stock Exchange in 2002. The comparable figure was 2.2% in 2001.

Marel shareholders in the middle of February 2003 were 1,824, an increase of 107 from the beginning of 2002.

Marel purchased own shares in 2002 at the nominal value of 469 thousand króna for 12.1 million króna. Total own shares in Marel hf at the end of 2002 had a nominal value of 3,277 króna.

The five largest shareholders as of 19 February 2003 were:

	Nominal value (in thous. kr.)	Ownership (percentage)
Burðarás hf	75,826	31.59%
Lífeyrissjóðir Bankastræti 7	30,061	12.52%
Búnaðarbanki Íslands hf	13,382	5.57%
Sjóvá Almennar tryggingar hf	13,146	5.48%
Fjárfestingafélagið Straumur hf	7,487	3.12%
Samtals	139,902	58.28%
Others: 1.819 shareholders	100,162	41.72%
Total	240,064	100.00%

Icelandic Quality Award 2002

The Board of the annual Icelandic Quality Award chose Marel hf as the 2002 recipient of the Icelandic Quality Award, given to the company that has excelled in business and administrative management.

Operational Activities

Product development
Marel's new organisational chart for product development, conceived in 2001, was fully operational during 2002. It was created to systematically improve product management and increase emphasis on core products. Already, significant results have been realised, as Marel's product offerings are better and more diverse than before.

A total of 6.2 million euros was earmarked for product development at Marel and its subsidiaries for 2002, compared with 5.5 million euros in 2001.

Marel places emphasis on protecting innovations in production with patents. Seven patents were applied for in 2002, while this figure has averaged 8-10 in recent years.

At the end of 2002, 54 employees worked in five product groups at the parent company, focusing on product development, sales-related design and basic research, which is two more than the average number last year.

Technological innovation at Marel
Among the innovations worked on at Marel during the year was an automatic pinbone machine that utilizes X-ray sensors to scan for pinbones in fish fillets.

During 2002, twenty-three new products were completed, which is a significant increase from the previous year when the number was 13. This makes 2002 one of the best ever regarding product development at Marel. The main innovations are the following:

- Three new flowlines were designed during the year for meat processing. A pre-trimming line for beef and a trimming line for beefsteak were developed and installed in an American processing plant. A de-boning line for lamb was also developed and installed at Norðlenska ehf in Húsavík, Iceland. In addition, work was conducted on designing a processing line for pork.

- The largest grading project during the year involved developing a Net-Weight Tray Packing System that both grades pieces and weighs portions, and can automatically correct weighing deviations and grading mistakes. Great expectations are tied to this unit for 2003 in connection with changes occurring in the grocery industry: selling chicken pieces and other food in trays that have a fixed weight. In addition, a line of standardized graders – "Classic" graders – was defined.

- A new line of portioning machines was launched in 2002. This is the 3rd generation of machinery from Marel, and the best to date in relation to precision, capacity and utilization. The units are available in both single- and duel-lane versions. The new portioning machines use 3-D laser technology to determine the raw material's cubic measure. Another product that has been fully developed is the TSM (Template Slicing Machine) that cuts chicken breasts according to a specified weight and form. This machine has drawn considerable attention, as it will significantly increase efficiency in processing uniform chicken breasts for the fast-food market.

- Finally, work was completed on a new high-speed packing system in 2002, which fulfils requirements for capacity and minimal overweight when packing pieces of various types of fresh fish fillets.

■

A new line of scales was introduced named M2200. The uniqueness of this line is that it has a powerful controller, along with capabilities of controlling, weighing and communicating within the system. It also has a great capacity for making adjustments.

■

Work was conducted on several projects involving MPS system software during 2002, which will be concluded this year, for example a new version of the MPS QC, quality system and software that connects the new portioning machines with the MPS system.

■

Marel and Carnitech have been working on developing a new processing line for bottom fish that is built on automatic bone removal. In connection with this project, Marel finished designing equipment that utilizes X-ray sensors to locate bones in fish fillets. Carnitech has designed a machine that automatically cleans bones from fillets. These machines have been in testing in Norway since last autumn, and sales of this machinery are expected to commence in 2003. A Norwegian fund has provided a grant to the project. Marel will use the knowledge it has acquired in X-ray technology to develop equipment for use in other areas of the food industry.

Operational Activities

Sales and marketing

Marel hf markets its products through a distribution system built around subsidiaries and agents. The company has sold products to over 60 countries with diverse languages, cultures, working practices and technological capabilities.

Several changes were made at the start of the year in the structure and organisation of sales and marketing matters, based on redefining specific knowledge-centers within the sales process, thereby improving capabilities to service global markets. These knowledge-centers are:

- **Business Center** - handles daily operations regarding the agent- and distribution-system, along with marketing matters.
- **Consulting Center** - expertise in the main product categories and industrial fields, with focus on supporting the distribution system and product development.
- **Project Center** - knowledge to implement projects that meet customer expectations by integrating the most feasible methodology.

Marel has six subsidiaries to handle sales and marketing matters and to provide services: Marel Equipment in Canada, Marel USA in Kansas, Marel Scandinavia in Denmark, Marel UK in Great Britain, Marel Deutschland and Marel Australia. Marel's subsidiaries conduct dynamic sales and marketing operations, and provide customer services.

Marel opened an office in Moscow in April 2002 to strengthen operations in Russia. A similar office was opened in February 2003 in Vigo, Spain. Marel has also contracted with over 30 agents to sell and service Marel products in many places around the world. More than 2/3 of Marel's sales are conducted through subsidiaries or direct from Marel.

As most other companies, Marel was affected by the global recession. Many projects that were expected to be implemented in all sectors were instead postponed, with the largest downturn being in the fish farming sector after years of growth. However, both the poultry and meat sectors have experienced improvement since 2001.

Low prices for salmon and other fish farming species were reflected in a considerable decline in investment in the farming sector. Most of the main salmon producers found themselves experiencing operating difficulties, which resulted in the postponement or cutback of numerous projects.

Sales to the traditional fisheries sector were acceptable in light of the recession and expectations for technological innovation in bottom-fish processing. Marel has a strong position in all the main fishing and processing markets. Strong product development and flexible adaptation have made it possible for Marel to meet industry needs with graders, portioning machines and processing systems.

The Crystal Egg prize

The Crystal Egg prize, awarded annually by the American poultry industry for outstanding marketing and promotional work, was given to Marel in 2002. Marel received four awards: for the promotional campaign "fixed but flexible, for the best print advertising category "fixed but flexible," for the brochure category and for the environment of its exhibition booth.

Marel's new company logo

After the company's move to Garðabær, a new logo was unveiled. The new logo further reflects the company's emphasis on developing and marketing high-tech equipment for the food industry.

Around the world, the poultry industry is struggling with oversupply, which has led to lower prices and operating difficulties. At the same time, companies have been looking for ways to increase profitability and automation. There are also demands being made by grocery chains, for example Wal-Mart, for new packaging categories for chicken that require new solutions. Marel has benefited by this trend, and has adjusted product lines to meet these demands. However, this was not reflected until the end of the year when sales jumped significantly. This change in sales to the chicken industry is largely built on new products or technologies to fulfil the above-mentioned needs.

The meat industry is gradually returning to normal after a difficult year that saw meat consumption decline due to consumer fears regarding livestock diseases. Marel has developed a trendsetting processing system for beef and lamb processing that was delivered in 2002. Marel enjoyed fruitful cooperation with Icelandic meat producers in developing a deboning line for lamb.

Marel's sales in 2002 were primarily to Europe and North America where the distribution network is strongest. Systematic development of the distribution system in Europe in recent years is returning results in the main regions. Work by Marel and associated companies promises favourable results in Australia, SE Asia and Russia where Marel has significantly strengthened its position.

Best company website 2002

ÍMARK, The Icelandic Marketing Association, awarded Marel for the best company website in Iceland in 2002. Marel's website was cited as being informative and accessible, and a good example of how the web can support a company's image, sales and service efforts.

Operational Activities

Production

A major change occurred when Marel moved to its new headquarters at Austurhraun 9, Gardabær, Iceland. The building's highly flexible design ensures the smooth flow of materials. Production was previously handled at two locations, but today it is all under one roof. Emphasis was also placed on creating a safe and healthy working environ-ment, for example there is powerful dust and particle suction equipment in welding and other dust-intensive work areas, sound absorbing and access to equipment to lighten loads, for example pallet trucks and overhead rail pulleys in the manufacturing area. Relaxation facilities for employees are excellent, which include a locker room, refreshment area and athletic facilities.

New and powerful production equipment was installed during the year. An automatic lathe and cutting machine (CNC) was added to the machine shop. A laser-cutting machine and a curving machine were added to the metal sheet unit where all stainless steel used in production is handled.

New, glass blasting equipment was also installed during the year, which has triple the output of the previous machine. In mid 2002, an experimental project was initiated using a robot to mass-produce equipment parts. This was pioneering work, as welding robots used in this manner is not common. The project produced results beyond expectations, and the robot is now working from morning to evening. Marel's production policy is to increase efficiency utilizing automation, and this policy is being implemented. The technological level of production at Marel is among the best in the world.

Marel's production methodology strategy for 2003 involves placing key emphasis on increasing productivity. The prerequisites for added productivity have been created through greater automation, improved design of facilities and an increase in standardized product parts. Increased productivity was measurable during the latter part of 2002, and great opportunities are now present for 2003. The arrangement of production processes are continually being reviewed in relation to increasing productivity, and this year particular attention will focus on increasing product standardization and arranging such production.

Service

Servicing customers is a key factor in Marel's operations. Like its sales network, the company's service network stretches over much of the globe. Most agents and subsidiaries handle services in their regions. Marel hf's service department in Iceland handles services for customers in Iceland and in those parts of the world not covered by agents or subsidiaries. This work is continually expanding with the installation of new equipment and systems, along with follow-up as well as repairs and general maintenance.

The service department provides all necessary support for the service activities conducted on the various markets, and provides technicians for subsidiaries and agents with backing in technologically complex areas where special expertise and knowledge is required. To impart this technical knowledge regarding Marel's products, the service department regularly holds technical courses for customers, as well as for technicians working at subsidiaries and agents. Sales of spare parts are also handled by the service department. The scope and turnover of this work is steadily increasing in conjunction with product sales.

Carnitech a/s

Carnitech's operational results were fluctuating during 2002, but the company returned an acceptable profit for the 4th quarter, and a profit for the year.

Carnitech develops, manufactures and sells equipment on the leading edge in the world in its field. This equipment does not overlap with products developed by the parent company, rather it complements them. The main lines of production are as follows:

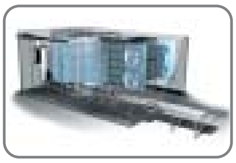
- On-board and land processing equipment for fish and shellfish, including equipment to process coldwater shrimp, crab and whitefish. Carnitech also produces a variety of equipment to process farmed warmwater shrimp, other shellfish and salmon.
- Meat processing equipment.
- Machinery to freeze, glaze and thaw. Considerable product development was conducted in this area in 2002.
- Various equipment made of stainless steel, for example lifting and discharge equipment for cases and boxes, fitments in cafeterias, furniture and other similar products.

Sales to the salmon industry decreased considerably due to difficulties in the field, as did sales to companies involved in producing warmwater shrimp in the Far East because of importing hindrances in EU countries.

There was some growth in sales to the meat industry despite hard competition from other Danish companies.

Carnitech has subsidiaries in the USA, Norway and Thailand. In addition, Carnitech purchased the Danish company C.P. Food Machinery, taking over operations at the start of 2002. That company mainly produces portioning machines and processing lines to slice fresh and smoked salmon fillets, as well as machines that automatically arrange the slices on cards.

The company reduced costs in order to counteract conditions on its markets. The average number of employees in 2002 was 425, while 383 were employed at the end of the year.





Prospects

Marel has a clearly defined policy, and will continue to focus on servicing three industrial sectors: fish, meat and poultry. Emphasis is placed on being on the forefront of marketing and product development for products that increase customer productivity. In recent years, considerable growth has characterised the company's development, which has placed Marel in a strong position on its main markets in the USA and Europe. Substantial growth opportunities exist in both current and new markets with new products being conceived. In the foreseeable future, however, main emphasis will be placed on increasing profitability, in part at the expense of growth, i.e. focus will be placed on attaining maximum rationalisation, and fully utilizing capital investments. The company's product development will also be strengthened and reorganised with the aim of ensuring long-term growth and profitability.

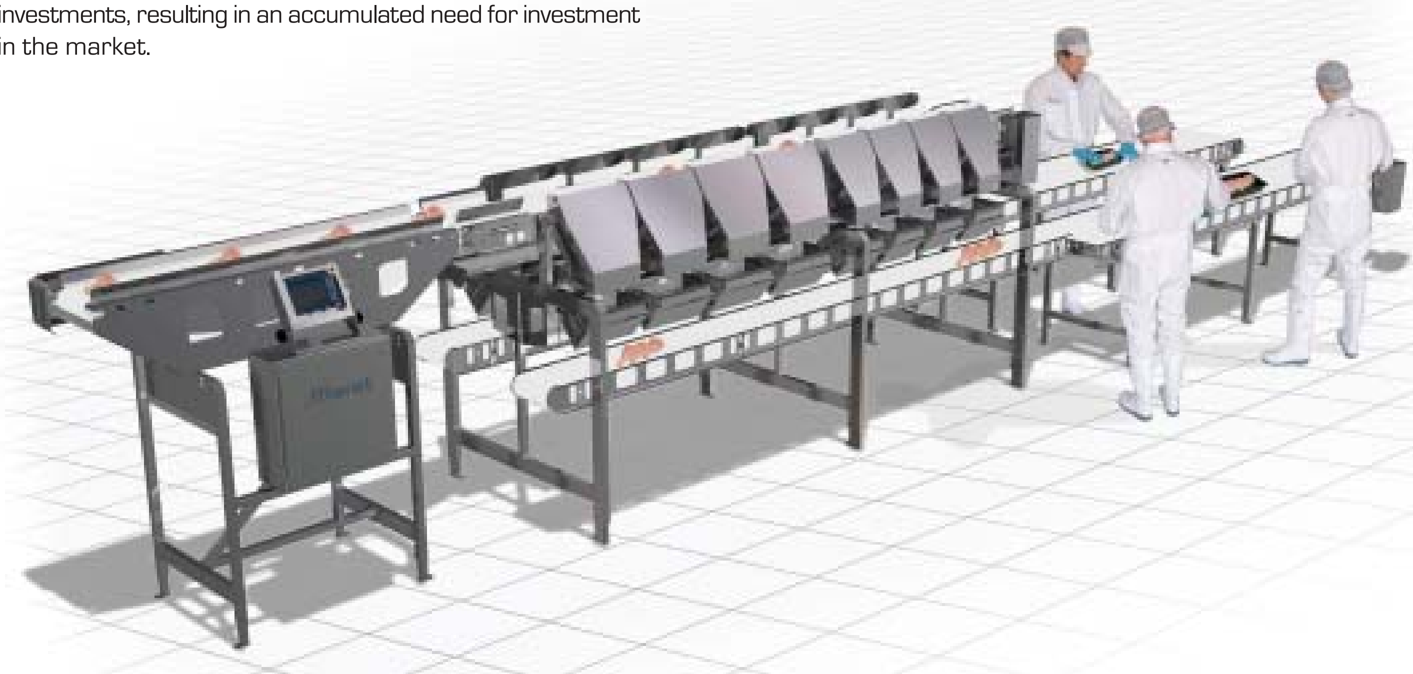
There is some uncertainty in how investment will evolve in the company's main markets in Europe and the USA. There is no end in sight to the economic downturn that has characterised these markets. Impending hostilities in Iraq have had a negative impact on investment trends in Marel's markets. Many companies in the food industry have deferred investments, resulting in an accumulated need for investment in the market.

At the same time, because of more intensive product development than ever before, Marel has strengthened its position in key product categories and marketed new products that have drawn considerable interest. The company is therefore well prepared to embark on new projects when investment returns.

Measures were taken at the end of 2002 to reduce costs as a reaction to difficult market conditions. These measures have already begun to generate results, and will fully realized during 2003.

The company's marketing operations were strengthened last year, both in traditional markets in Europe and the USA, as well as in new markets where significant investment is expected, for example in SE Asia, Australia and Russia.

In light of the uncertainty on the company's markets, and the operating environment in Iceland, the decision was taken not to publish an operating forecast for the year 2003. However, Marel expects that operations for 2003 will be profitable.



FINANCIAL STATEMENTS 2002

The Board and Managing Director's Report

Operating revenues of the Group according to the profit and loss account were EUR 104 million in the year compared to EUR 97 million in year 2001. Net profit of the Group amounted to EUR 50 thousand compared to EUR 2.1 million in the preceding year. Assets of the Group amounted to EUR 82.6 million according to the balance sheet and shareholders' equity amounted to EUR 22.7 million at year-end.

During the year an average of 792 employees were employed by the Group, with 273 employed by the parent company. Total wages and salaries for the group amounted to EUR 39 million.

The number of shareholders in Marel hf at year's end 2002 were 1,823 and increased by 107 during the year. Two shareholders had a holding interest of more than 10% in the company, Burdarás hf, which owned 31.6% and Pension Fund Bankastraeti 7 which owned 10.8%.

The Board of Directors suggests that a dividend of 10% be paid in the year 2003, but refers to the Financial Statements regarding appropriation of the year's net profit and changes in shareholders' equity.

The Board of Directors and Managing Director of Marel hf hereby ratify the Financial Statements for 2002 with their signatures.

Reykjavík, 17 February 2003

Benedikt Sveinsson
Þorkell Sigurlaugsson
Arnar Þór Másson
Heimir Haraldsson
Þórólfur Árnason

Managing Director:

Hörður Arnarson

Auditors' Report

To the Board of Directors and Shareholders of Marel hf

We have audited the Consolidated Financial Statements of Marel hf for the year 2002. The Consolidated Financial Statements consist of the board of director's report, profit and loss account, balance sheet as of December 31, statement of cash flow, summary of accounting principles and notes 1 - 14. These Financial Statements are the responsibility of the company's management according to law and regulations. Our responsibility is to express an opinion on these Financial Statements based on our audit. We have not audited the foreign subsidiaries' Financial Statements, but they have been audited and signed by unqualified reports by other certified public accountants.

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

It is our opinion, based on our own audit and the auditors' reports of the foreign subsidiaries' Financial Statements, that the Financial Statements present fairly, the financial position of the company and its subsidiaries as of December 31, 2002 and the results of its operations and its cash flows for the year then ended, in accordance with law, the company's statutes and generally accepted accounting standards in Iceland.

Reykjavík, 17 February 2003

PricewaterhouseCoopers ehf

Gunnar Sigurðsson
Ólafur Þór Jóhannesson

Five-Year Summary

	2002	2001	2000	1999	1998
Operating results					
Operating income	104,009	97,211	79,391	74,355	47,396
Operating profit	2,278	5,979	4,528	5,995	1,193
Net profit (loss)	50	2,106	(117)	4,306	115
Financial trends					
Funds from operations	2,373	4,606	5,300	5,708	1,003
Investing activities	(17,959)	(12,585)	(13,321)	620	(346)
Profit before depreciation (EBITDA)	5,469	8,174	6,383	7,487	2,651
Financial position					
Total assets	82,602	68,829	62,050	41,322	33,477
Working capital	12,740	14,978	22,458	14,840	12,628
Equity	22,724	23,654	23,722	11,256	6,073
Various figures in proportion to turnover					
Bought material	32.8%	33.0%	33.0%	37.8%	34.3%
Wages and benefits	42.1%	39.4%	40.3%	35.2%	41.0%
Other operating expenses	19.9%	19.2%	18.7%	17.0%	19.1%
Profit before depreciation (EBITDA)	5.3%	8.4%	8.0%	10.1%	5.6%
Depreciation	3.1%	2.3%	2.3%	2.1%	3.1%
Net income	0.0%	2.2%	-0.1%	5.8%	0.2%
Other key ratios					
Working capital ratio	1,4	1,6	2,0	1,8	2,0
Monetary working capital ratio	0,7	0,8	1,3	1,1	1,3
Equity ratio	27.5%	34.4%	38.2%	27.2%	18.1%
Return on owners' equity	0.2%	9.4%	-1.0%	65.6%	1.8%

Amounts 1998 - 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.

Amounts in thousands of EUR

Profit and Loss Account for the year 2002

	Notes	2002	2001
Operating revenues			
Sales of goods and services		100,654	94,116
Changes in work in progress and finished		1,348	1,204
Other income		2,007	1,891
		104,009	97,211
Operating expenses			
Bought material		34,117	32,058
Wages and benefits	1	43,763	38,320
Other operating expenses		20,660	18,659
Depreciation	6	3,191	2,195
		101,731	91,232
Operating profit		2,278	5,979
Financial income (expenses)	2		
Interest and exchange rate difference on long-term liabilities		(130)	(1,630)
Other financial income and expenses		(1,845)	(441)
		(1,975)	(2,071)
Profit before taxation		303	3,908
Calculated income tax	11	(179)	(1,565)
Calculated net worth tax		(74)	(237)
		(253)	(1,802)
Net profit		50	2,106

Marel hf. Consolidated Financial Statements 2002 Amounts in thousands of EUR

Balance Sheet as of December 31, 2002

Assets	Notes	2002	2001
Fixed assets			
Intangible assets:			
Product development costs	3	500	500
Long-term costs	4	307	281
Goodwill	5	3,699	396
		4,506	1,177
Tangible fixed assets:	6		
Buildings and premises		25,676	15,815
Machinery and equipment		5,450	3,904
Fixtures and fittings		1,669	1,590
Other assets		1,668	1,975
		34,463	23,284
Investments and long-term debtors:			
Deferred tax assets	11	1,603	1,239
Shares in other companies	7	765	743
Long-term debtors		0	212
		2,368	2,194
Total fixed assets		41,337	26,655
Current assets			
Stock	8	20,187	19,356
Current portion of long-term debtors		89	120
Trade debtors	9	15,723	15,689
Other debtors and prepayments		2,375	3,499
Cash and cash equivalents		2,891	3,510
		41,265	42,174
Total assets		82,602	68,829

Amounts in thousands of EUR

Balance Sheet as of December 31, 2002

Equity and liabilities	Notes	2002	2001
Shareholders' equity	10		
Share capital		2,601	2,606
Legal reserve		11,293	11,197
Translation difference		(681)	0
Retained earnings		9,511	9,851
		22,724	23,654
Liabilities			
Commitments:			
Deferred income tax liability	11	969	890
Contingent liabilities		611	447
		1,580	1,337
Long-term liabilities	12		
Debentures		7,599	5,960
Financial institutions borrowings		22,174	10,682
		29,773	16,642
Current liabilities			
Financial institutions borrowings		4,622	3,429
Trade creditors		7,554	9,768
Other current creditors		6,873	6,632
Prepaid income		2,532	2,544
Current portion of long-term liabilities	12	6,755	4,422
Accrued taxes payable		189	401
		28,525	27,196
Total liabilities		59,878	45,175
Total equity and liabilities		82,602	68,829
Mortgages	13		
Commitments and other information	14		

Marel hf. Consolidated Financial Statements 2002 Amounts in thousands of EUR

Statement of Cash Flow for the Year Ended December 31, 2002

	2002	2001
Cash flows from operating activities		
Cash generated from operations:		
Net profit	50	2,106
Items not affecting cash:		
Depreciation	3,191	2,195
Amortisation of product development	243	258
Other items	(1,111)	47
	2,373	4,606
Decrease (increase) in operating items:		
Trade debtors and other debtors	960	(2,823)
Stock	(831)	(3,494)
Current liabilities	(2,068)	1,831
	(1,939)	(4,486)
Net cash from operating activities	434	120
Cash flows from investing activities		
Purchase of tangible fixed assets	(14,419)	(11,949)
Proceeds from sale of tangible fixed assets	266	260
Purchase of shares in other companies	(3,556)	(403)
Changes in long-term debtors	243	(71)
Capitalised product development cost	(243)	(258)
Capitalised long-term cost	(250)	(164)
	(17,959)	(12,585)
Cash flows from financing activities		
New long-term liabilities	20,728	5,849
Repayments of long-term liabilities	(4,492)	(2,131)
Changes in short-term borrowings	1,193	1,402
Dividends paid	(390)	(275)
Changes in own shares	(133)	(895)
	16,906	3,950
Increase (decrease) in cash	(619)	(8,515)
Cash at beginning of year	3,510	12,025
Cash at year end	2,891	3,510

Amounts in thousands of EUR

Accounting Policies

The 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 law nr. 25/2002 about change in the Accounting Act and the Financial Statements Act, Marel hf has received permission to keep its accounts in the currency of Euro. The company's Financial Statements will therefore in the future be reported in the currency of Euro. Previous years, comparative figures have been changed in conformity. They were translated from Icelandic kronur into the currency of EUR based on the average exchange rate of year 2001 for the operating items, but the year end rate for the balance sheet items.

In accordance with changes in the Financial Statements Act, calculated effect of general price-level changes are no longer stated in the Financial Statements. The revaluation account, under owners equity, is recorded to increase retained earnings at the beginning of the year 2002. This change means that calculated effects of price level changes on monetary assets and liabilities, the so-called general price-level adjustment, is no longer stated in the profit and loss account. Revaluation of fixed assets is also no longer recorded and depreciation of tangible fixed assets owned at the year end 2001 is calculated based on revalued historical cost as shown at the year end 2001.

Comparative year's figures have not been changed, but net gain for the previous years' period, before taxes, would have been EUR 1 million higher, if general price-level adjustments had not been used when preparing those Financial Statements.

The Group's Financial Statements

The Consolidated Financial Statements of Marel hf include the 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. Marel Australia Pty Ltd. started operation in the beginning of the year 2002.

The operating items of those subsidiaries that do not report in the currency of Euro, are translated by using the average exchange rate of the year, but assets and liabilities at the closing rate. Exchange differences arising from the translation are taken to a special account included in shareholders' equity.

The Financial Statements of the Group have been prepared by adding together like items of assets, liabilities, income and expenses from the 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 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.

Accounting Policies

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 year 2003. Assets and liabilities in other currency than Euro are translated into the currency of Euro at the year-end rates of exchange. Exchange rate differences from monetary assets and liabilities are recorded in the Marel hf profit and loss account.

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 year.

Other income

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

Calculated income tax

Income tax based on the year'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 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.

Accounting Policies

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.

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 years, but 3 - 10 years 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 leassor, 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. The allowance is based on an assessment of individual accounts.

Accounting Policies

Cash and cash equivalents

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

Deferred income tax liability (assets)

Income tax based on the year'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 year 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.

Notes

1. Wages and benefits

Wages	39,265
Benefits	4,498
	43,763
Including wages and remuneration of board and managing director	201
Average number of employees	792

2. Financial income (expenses)

	Long-term liabilities	Other items	Total 2002	Total 2001
Interest and indexation income	0	125	125	676
Interest and indexation expenses	(1,569)	(751)	(2,320)	(1,531)
Exchange rate differences	1,439	(1,165)	274	285
	(130)	(1,791)	(1,921)	(570)
Computed price-level adjustment	0	0	0	(1,051)
Shares in companies written down	0	(54)	(54)	(450)
	(130)	(1,845)	(1,975)	(2,071)

3. Product development

	2002	2001
Product development 1/1	500	451
Revaluation in the year	0	49
Addition in the year	243	247
Amortisation of the year	(243)	(247)
	500	500

4. Long-term costs

	2002	2001
Long-term cost 1/1	281	320
Revaluation in the year	0	36
Addition in the year	250	158
Amortisation of the year	(224)	(233)
	307	281

Marel hf. Consolidated Financial Statements 2002 Amounts in thousands of EUR

Notes

5. Goodwill

	2002	2001
Goodwill 1/1	396	386
Revaluation in the year	3	17
Addition in the year	3,491	0
Amortisation of the year	(191)	(7)
	3,699	396

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	16,055	8,437	3,901	4,665	33,058
CP Food 1/1	804	295	339	0	1,438
Exchange rate difference	10	(82)	(106)	(133)	(311)
Additions	9,756	2,540	701	580	13,577
Sales	0	(527)	(1,480)	(731)	(2,738)
Total value 31/12	26,625	10,663	3,355	4,381	45,024
Acc. depr 1/1	240	4,533	2,311	2,690	9,774
CP Food 1/1	279	220	97	0	596
Exchange rate difference	1	(62)	(58)	(78)	(197)
Depreciation	429	1,042	623	682	2,776
Sales	0	(520)	(1,287)	(581)	(2,388)
Total depreciation 31/12	949	5,213	1,686	2,713	10,561
Net book value 31/12 2002	25,676	5,450	1,669	1,668	34,463

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

Depreciation of tangible fixed assets	2,776
Amortisation of long-term costs	224
Amortisation of goodwill	191
	3,191

7. 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	157
Arbor SA	50.00%	EUR 168	603
			765

Notes

8. Stock

	2002	2001
Raw materials and spare parts	9,475	8,305
Work in progress	1,550	2,214
Ordered work in progress	3,855	5,442
Finished goods	5,307	3,395
	20,187	19,356

9. Trade debtors

Domestic trade debtors	471	176
Foreign trade debtors	15,252	15,513
	15,723	15,689

10. Equity

Share capital

Total share capital of the company amounted to ISK 240 million at year end 2002, of which ISK 3.3 million were owned by the company itself.

Legal reserve

The acquisition price of goodwill, used to reduce the legal reserve in the year of purchase, is now partly charged against income in the company's tax return. The effect on the company's income tax for the year 2002 is used to increase the legal reserve.

Changes in shareholders' equity

	Share capital	Legal reserve	Translation difference	Revaluation reserve	Retained earnings
Balance 1/1	2,606	11,197	0	1,015	8,836
Revaluation reserve transf. to retained earnings			0	(1,015)	1,015
Corrected balance 1/1	2,606	11,197	0	0	9,851
Bought own shares	(5)	(128)			
Tax effect due to charged older goodwill		224			
Translation difference of shares in foreign com.			(681)		
Dividend paid					(390)
Net profit					50
Balance 31/12	2,601	11,293	(681)	0	9,511

Marel hf. Consolidated Financial Statements 2002 Amounts in thousands of EUR

Notes

11. Deferred income tax liability (assets)

Change in deferred income tax liability analysis as follows:

Deferred income tax liability (asset) at year beginning	(349)
CP Food Machinery A/S	104
Exchange rate difference due to foreign subsidiaries	6
Income tax effects due to charged older goodwill	(224)
Income tax on regular operation	179
Income tax payable	(350)
	(634)
Deferred income tax assets stated with investments and other long-term debtors	1,603
	969

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

Tangible fixed assets	896
Goodwill	(208)
Taxable loss carried forward	(1,788)
Other items	466
	(634)

12. Long-term liabilities

Liabilities in foreign currency	
Liabilities í USD	3,807
Liabilities í DKK	6,163
Liabilities í NOK	244
Liabilities í GBP	675
Liabilities í JPY	1,968
Liabilities í SEK	101
Liabilities í CHF	358
Liabilities í EUR	22,111
	35,427
Liabilities, index-linked in ISK	413
Finance lease liabilities	688
	36,528
Current maturates	(6,755)
	29,773

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

Year 2003	6,755
Year 2004	6,614
Year 2005	1,780
Year 2006	4,456
Year 2007	6,027
Later	10,896
	36,528

Marel hf. Consolidated Financial Statements 2002 Amounts in thousands of EUR

Notes

13. Mortgages

Loans with an outstanding balance of EUR 16 million are secured with mortgages and pledges against the group's buildings. Loans with an outstanding balance of EUR 13.8 million are secured with mortgages and pledges against the groups other assets.

14. 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 2.3 million. The amount will be charged at the relevant rental time of each agreement. The rental agreements will materialise in the years 2003 - 2006.

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 45.5 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 18 million and stock to EUR 13.6 million.

At the beginning of 2001, the parent company entered into an option schema whereby the company's employees can obtain shares, nominal value of ISK 8,580,000 at a par value of ISK 42, to be exercised in the years 2002 - 2007.


Marel

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