Annual Report 2003

Marel's vision is to be an international leader in developing and marketing high-tech processin

The Marel Group

A Global Presence

Founded in 1983, Marel is today one of the world's leading developers and manufacturers of intelligent processing equipment and total production solutions for the fisheries, meat and poultry industries.

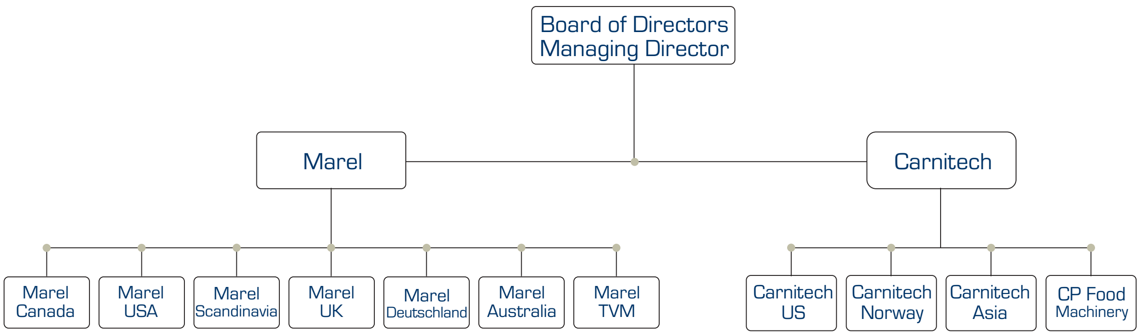
Listed on the Icelandic Stock Exchange and owned by around 1,620 shareholders, the Marel Group is composed of a core of 7 companies bearing the Marel name, along with Danish-based Carnitech A/S and CP Food Machinery, suppliers of equipment and production solutions to various sectors of the global food processing industry.

Supported by a network of agents and distributors in some 30 countries worldwide, Marel has a truly global presence.

From the outset, quality, reliability and excellence in customer service have played a pivotal role in Marel operations.

In 1997 the Group's parent company, Marel hf, became the first in its field to receive ISO 9001 certification from the International Standards Organisation for quality in product development, sales, manufacturing and after-sales services.

Organisation



Crystal Egg Award 2004

Icelandic Fisheries Exhibition Award 2002

Best Company Website 2002

cessing equipment for the food processing industry in order to increase the productivity of Marel customers.

Subsidiaries

Marel Australia
Sigsteinn Grétarsson

Marel Canada
Noel Whitten

Marel Deutschland
Jesper S Christensen

Marel Scandinavia
Bjarne Rask Nielsen

Marel TVM
Thomas Völkl

Marel UK
Halldór Magnússon

Marel USA
Einar Einarsson

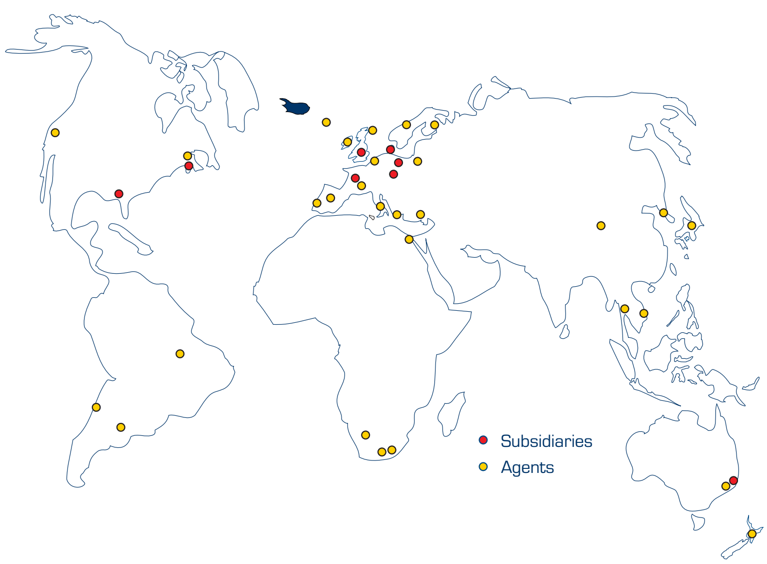
Carnitech A/S
Thorkild Christensen

Carnitech U.S. Inc.
Henrik Rasmussen

Carnitech Norway AS
Per Huse

Carnitech Asia Ltd.
Arne Løvig Christensen

CP Food Machinery A/S
Lars Jøker



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

Alternates
Andri Teitsson
Friðrik Jóhannsson

Managing Director
Hörður Arnarson

State Certified Public Accountant
PricewaterhouseCoopers hf
Gunnar Sigurðsson
Ólafur Þór Jóhannesson

Quality Award 2002

Knowledge Award 2002

President of Iceland Export Award 1996

Index

PERFORMANCE IN 2003

Performance in 2003

The year 2003 was in many aspects a good one for Marel. It was a year that reaped benefits from investments and rationalisation measures made during previous years, which offset difficult external conditions, in particular the world's currency markets.

Marel's Financial Statements for 2003 are now calculated in euros, which is the Group's operational currency, the second time this is done. Comparative figures from previous years have been adjusted to these changes. Fundamentally, the same accounting methods are used this year as in 2002.

The following is a discussion concerning the Marel Group's operations, financial position and cash flow. The Financial Statements are on pages 27 – 43.

Operating revenues and expenses 2003

The Marel Group's operating revenues for 2003 totalled 108.6 million euros, compared with 104.0 million the previous year. Operating revenues have therefore increased by 4.0%.

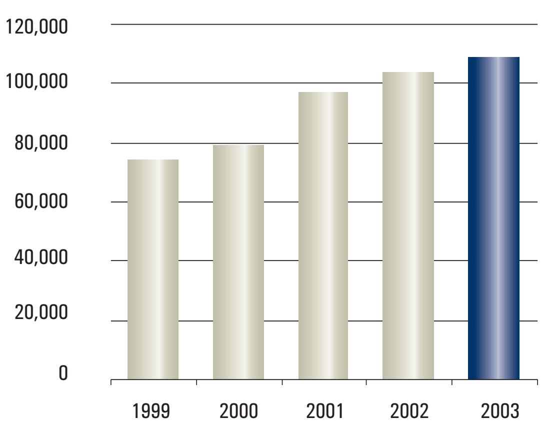
Operating expenses excluding financial items were 102.1 million euros, compared with 101.7 million in 2002, and are therefore virtually unchanged. The contribution margin, i.e. the difference between operating revenue and bought material, has increased by about 2.5 million euros or about 3.5%. Wages & benefits were 43.5 million euros, and remained unchanged between the years. Other operating expenses dropped about 1.7 million euros or about 8% from 2002. As a ratio of operating revenue, the main operating items are as follows:

	Year 2003	Year 2002
Bought material	33.4%	32.8%
Wages & benefits	40.1%	42.1%
Other operating expenses	17.4%	19.9%

Measures taken during the latter part of 2002, along with stringent expense restraint during 2003, returned good results. Work is continuing on further increasing the contribution margin of company production with added emphasis on standardised products.

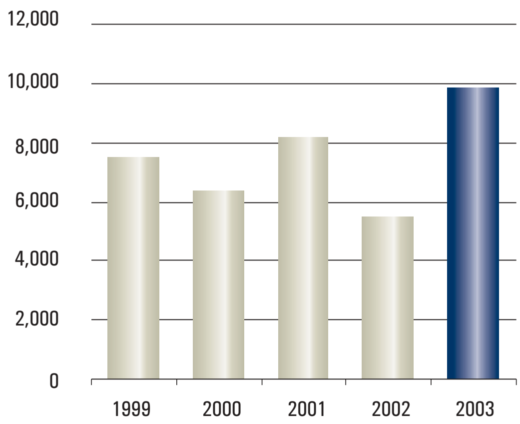
► Operating revenue

Thous. EUR



► Operating profit before depreciation, EBITDA

Thous. EUR



Revenue expenditures for product development charged to the parent company, Carnitech and Marel TVM totalled about 6.4 million euros in 2003, compared with 6.2 million euros in 2002, an increase of 3.4%.

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

	Year 2003	Year 2002
EBITDA in thou. EUR	9,877	5,469
EBITDA as a % of revenue	9.1%	5.3%
EBIT in thou. EUR	6,568	2,278
EBIT as a % of revenue	6.0%	2.2%

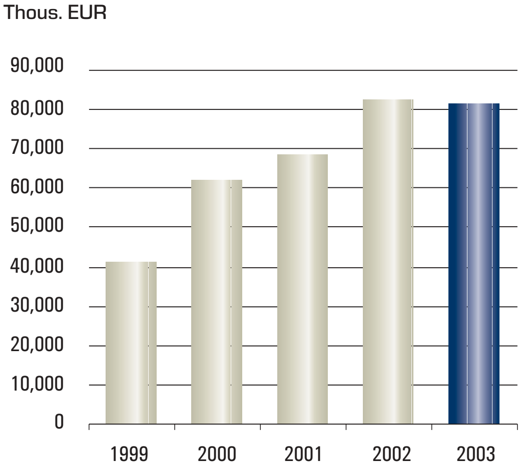
Financial expenses above financial income totalled 1.7 million euros, compared with 2.0 million in 2002. During the year the Parent Company's debts were refinanced, which led to significant cost-of-capital savings and more favourable payment distribution in future. The Group's debts decreased by about 3.7 million euros, or about 6% from the beginning to the end of 2003. Of this total, interest-bearing debts reduced by over one million euros. The Parent Company's interest-bearing debts are about 72% of the Group's comparable debts calculated at the end of 2003. This savings appear in part during 2003, and fully in 2004.

Income tax was 1.1 million euros, compared with 0.2 million the previous year. Property tax was 51 thousand euros. Total taxes for the Group were calculated at just under 24% of profits before taxes; the company operates in a locality where the tax rate is between 18-43%.

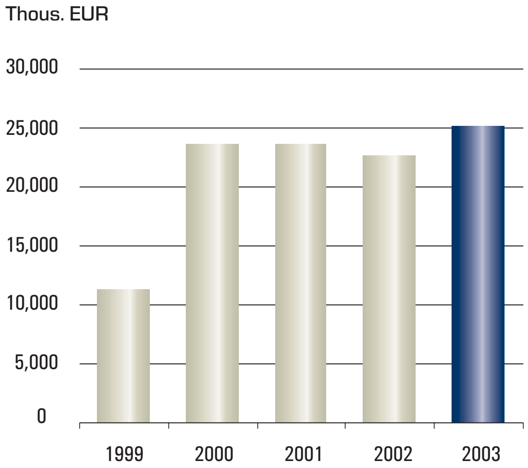
Profit for Marel hf in 2003 totalled 3.7 million euros, compared with 50 thousand euros the previous year. External conditions were in many ways unfavourable for the company, in particular the exchange rate between the euro and US dollar; on average, 17% fewer euros were exchanged for each dollar in 2003 compared with 2002. The USA market is very important for Marel. About 34% of the Group's revenue was in US dollars during 2003, but expenses in that currency were considerably less. The reduced real revenue in dollars was counteracted by good results in reducing expenses. The Group's operations in millions of euros are divided as follows:

	1 quarter	2 quarter	3 quarter	4 quarter	Total
Operating revenue	24.1	31.9	21.0	31.6	108.6
Operating expenses	23.1	29.2	19.8	29.9	102.0
Operating profit (EBIT)	1.0	2.7	1.2	1.7	6.6
EBIT %	4.1%	8.5%	5.4%	5.4%	6.0%
Net financial expenses	(0.3)	(0.2)	(0.8)	(0.4)	(1.7)
Calculated taxes, etc.	(0.1)	(0.8)	(0.3)	(0.0)	(1.2)
Profit/(loss)	0.6	1.7	0.1	1.3	3.7

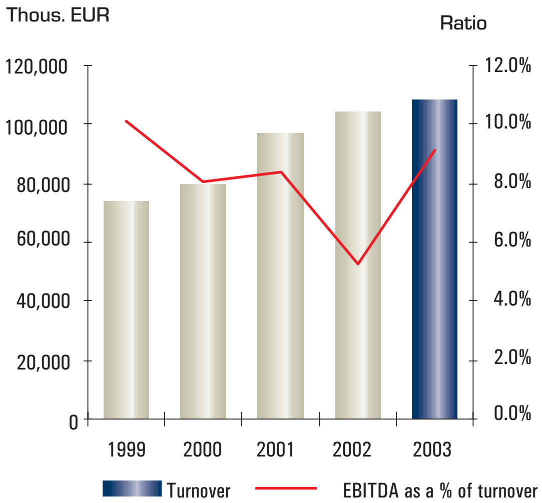
▶ Total assets



▶ Shareholders' equity



▶ Operating profit before depreciation, EBITDA as a percentage of operating revenue



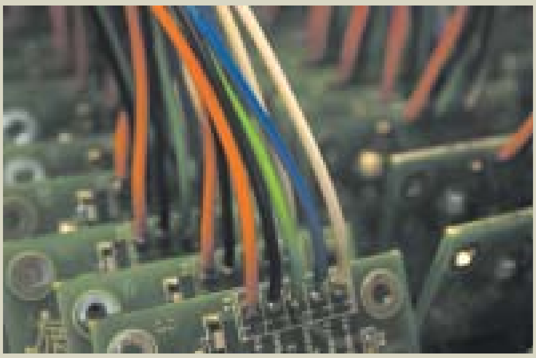
Assets and liabilities at end of 2003

Marel's total assets at the end of 2003 were entered at 81.3 million euros, a decrease of 1.3 million or 1.5% from the previous year. This reduction can in large part be attributed to the depreciation of property, plant and equipment by 1.4 million euros above investment in fixed assets, the reduction of the Group's overall debts by about 3.7 million, and other increase of 1.4 million. At the same time, equity capital rose by about 2.4 million.

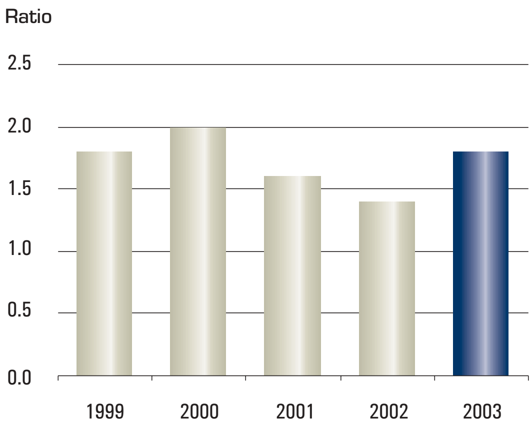
Investment in fixed assets during 2003 totalled 1.9 million euros. In comparison, such investment averaged 11.7 million euros during the years 2000 – 2003. The company is well prepared to handle internal growth over the next 2-3 years without the need for significant investment. The value of inventory at year's end totalled 22.8 million euros, a rise of about 12.7% in 2003.

Accounts receivable totalled 13.3 million euros, a drop of 15.1%. Allocated credit was on average 48 days in 2003, compared with 54 days in 2002.

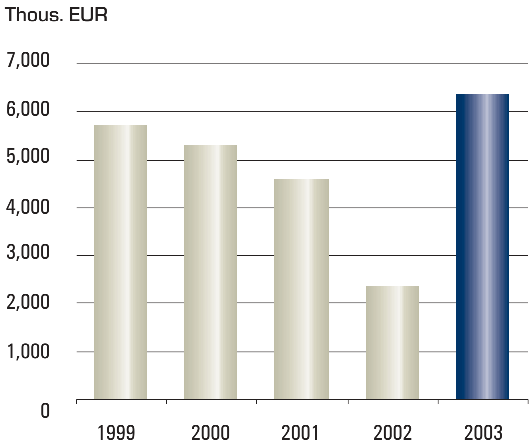
Liabilities at the end of 2003 totalled 56.2 million euros, a decrease of about 3.7 million or 6.2%. Long-term liabilities rose by about 1.1 million, short-term liabilities dropped by about 4.4 million, and other liabilities decreased by about 0.4 million. The reduction in short-term liabilities is chiefly the result of refinancing long-term liabilities, which lengthened the Group's loan-repayment schedule to an average of 12 years.



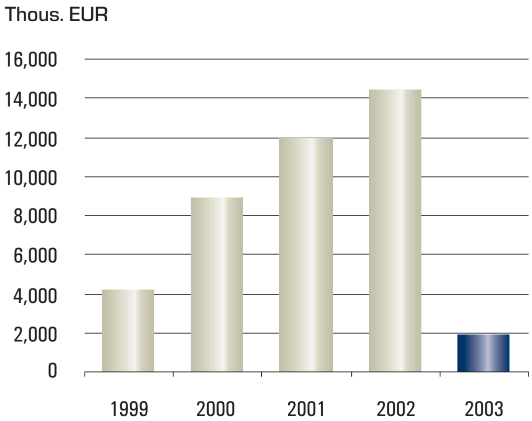
Current ratio



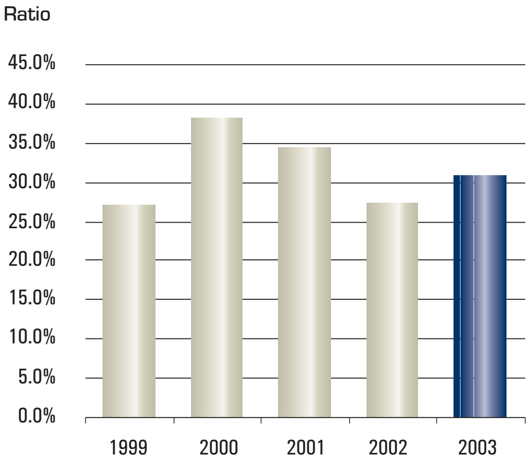
Working capital from operating activities



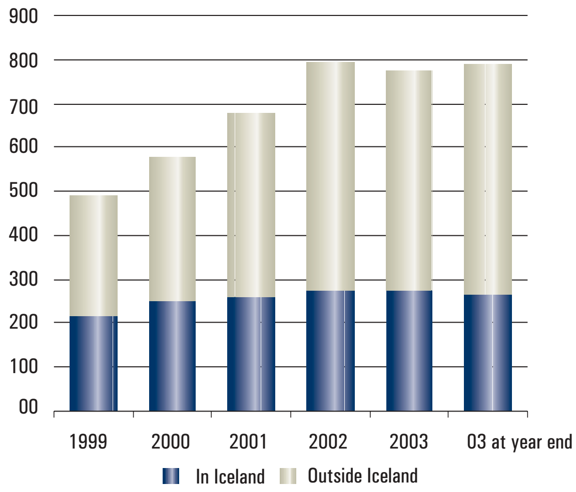
Purchase of tangible fixed assets

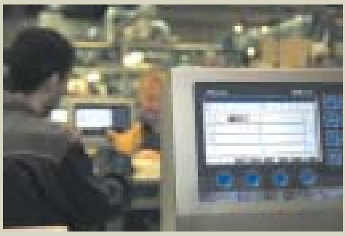


Equity ratio



Number of employees, average pr year





Owner's equity at the end of 2003 was 25.2 million euros, an increase of about 2.4 million during the year. The change is itemised in thousands of euros:

	2003	2002
Profit	3,749	50
Translation reserve of shares in foreign companies	(515)	(681)
Own stock bought in excess of sold	(511)	(133)
Paid dividend	(280)	(390)
Other	-	224
Increase/(decrease) in own equity	2,443	(930)

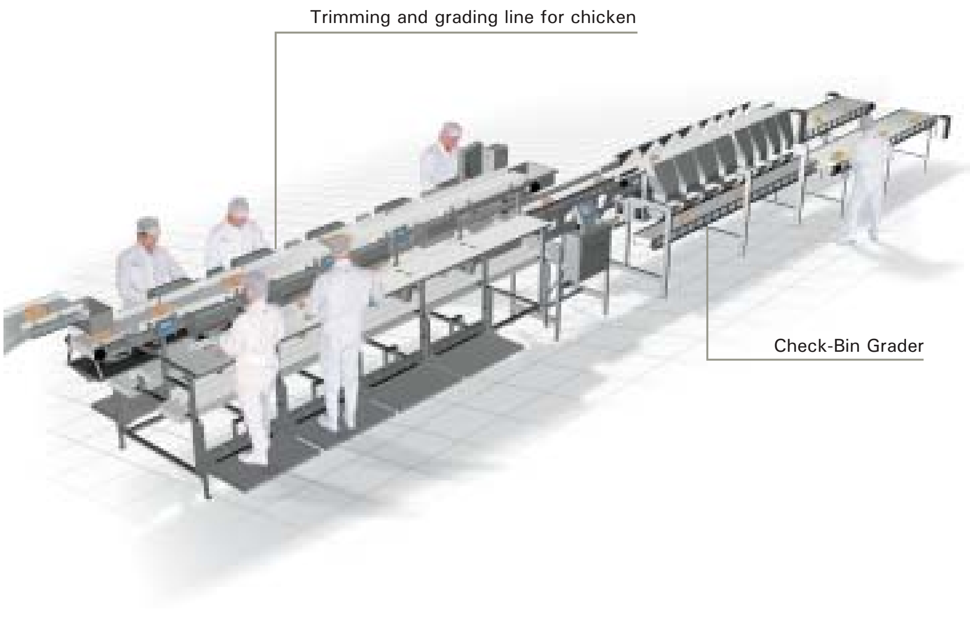
The equity ratio at the end of 2003 was 30.9%, compared to 27.5% the previous year. The current ratio was 1.8, compared to 1.4 at the end of 2002. The ratio of "pure gearing" (interest-bearing liabilities minus cash and cash equivalents divided by owner's equity) was 1.40 compared with 1.68 at the end of 2002.

Cash flow

Working capital from operating activities was 6.4 million euros in 2003, compared to 2.4 million the previous year. Cash and cash equivalents from operations totalled 4.9 million euros, the highest ever. At the end of 2003, cash and cash equivalents were 4.7 million euros, compared with 2.9 million at the end of 2002

Employees

Employees of the Marel Group averaged 773 during 2003, compared with 792 in 2002. Of these, 273 worked in Iceland and 500 abroad in 12 companies in 8 countries. At the end of 2003, the number of employees totalled 788:
266 in Iceland and 522 abroad.



Annual General Meeting 2003

Marel hf.'s Annual General Meeting for the operating year 2002 was held on 28 February 2003 at Marel Headquarters in Garðabær. The meeting consisted of general business. The Chairman read 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 passed unanimously. A motion was also passed to pay a dividend to shareholders of 10%. The 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. PricewaterhouseCoopers hf. was elected as certified public accountants.

A proposal was passed permitting the Board to purchase company shares for up to 20 million kronas at par value.

IPM III portioning line for fish

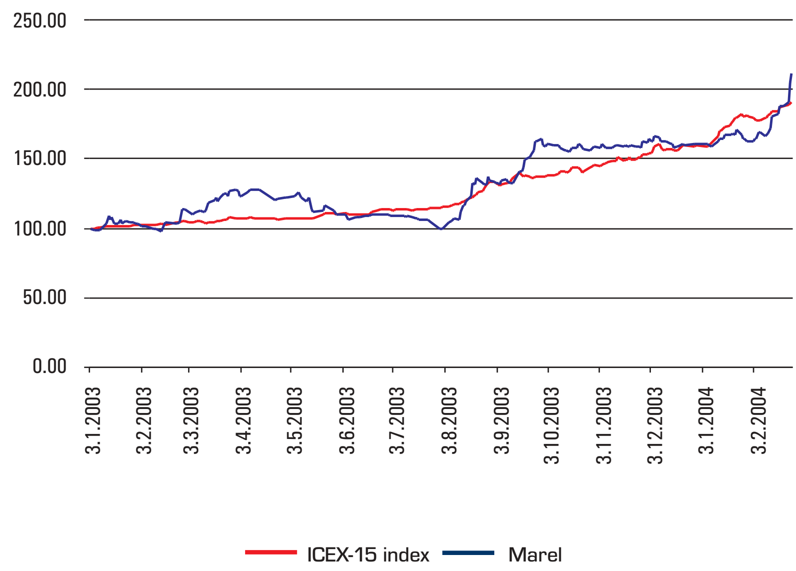
Stock

The Iceland Stock Exchange's ICEX-15 index increased by 91% from the start of 2003 to 25 February 2004. During this period, Marel hf.'s share price rose by 111%. Marel's listed share price at the start of 2003 was 17. The closing price on 25 February 2004 was 35.90

Listed trading with Marel shares totalled 3,690 million kronas in 2003, compared with 2,371 million in 2002. This figure accounted for 0.7% of listed trading on the Iceland Stock Exchange in 2003, equal to the amount in 2002.

In June 2003 a market-making contract regarding Marel hf's shares was signed with MP Investment Bank, which has contributed to the stock's saleability.

▶ Share price trend of Marel shares compared with the ICEX-15 index.



Marel shareholders on 25 February 2004 totalled 1,616, a decrease of 207 from the beginning of 2003.

► The five largest shareholders as of 25 February 2004 were:

	Nominal value in thous kr.	Ownership
Burðarás ehf	80,226	33.42%
Viðskiptastofa SPRON	18,641	7.76%
Straumur fjárfestingarbanki hf	16,401	6.83%
Sjóvá-Almennar tryggingar hf	13,146	5.48%
Íslandsbanki hf	9,191	3.83%
Total	137,605	57.32%
Other: 1.611 shareholders	102,459	42.68%
Total	**240,064**	**100.00%**

Marel purchased own shares in excess of sold shares in 2003 at a nominal value of 1,017 thousand kronas. Total own shares in Marel hf. at the end of 2003 had a nominal value of 4,295 thousand kronas, which is 1.79% of the company's total shares. As of 25 February 2004, Marel's own shares had a nominal value of 4.3 million króna.

Marel Production control and monitoring software

Marel produces a line of MPS production software that offers production control and monitoring software for grading, packing and portioning equipment. Modular in design like the systems it serves, Marel production software is the driving force behind much of the company's equipment. Designed to provide plant managers with a complete overview of every detail of the production process, it also enables them to make immediate adjustments, using only a few strokes of the keyboard on the system's M3000 interface.

Research Analysts for Marel hf 2003

Those parties that regularly analyse and rate Marel´s listed stock price are Íslandsbanki hf, KB banki hf and Landsbanki Íslands hf.

Íslandsbanki hf.
Stefán Broddi Guðjónsson
stefan.gudjonsson@isb.is – Tel: +354 440 4638

KB Banki hf.
Sigþór Jónsson
sigthor@kbbanki.is – Tel: +354 444 6000

Landsbanki Íslands hf.
Jónas G. Friðþjófsson
jonasgf@landsbanki.is – Tel: +354 560 6000

Portio 4003 Portioning Machine

OPERATIONAL ACTIVITIES

Product Development in 2003

The year 2003 was characterised by major sales and follow-up on products introduced towards the end of 2002. Large, sales-related projects also weighed heavily during 2003, as well as projects involving the integration of Marel equipment into systems of several cooperative partners.

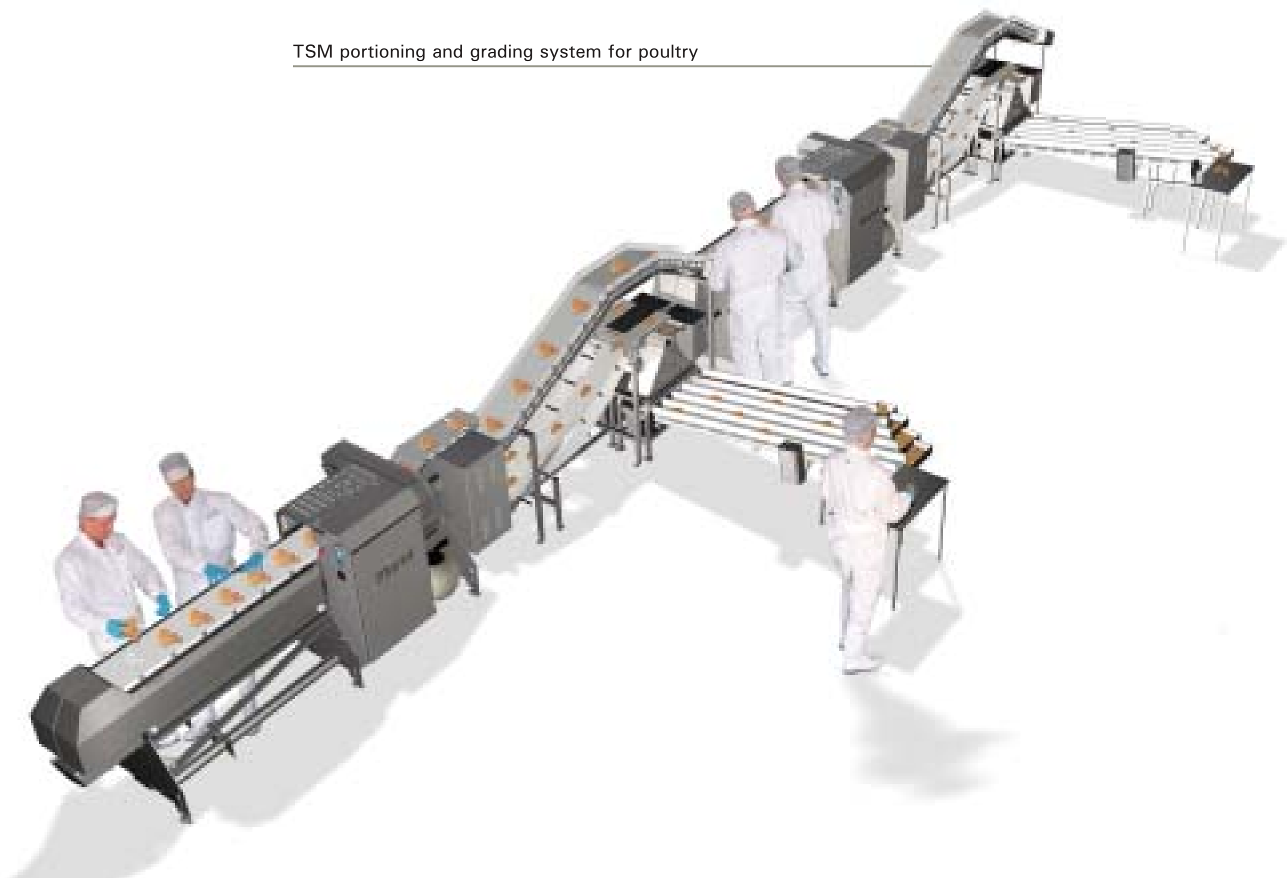
The weight of new products that entered the market over the past two years in the Group's overall revenue for 2003 is about 40%.

A total of 6.4 million euros was earmarked for product development by the Marel Group, or 5.9% of turnover, compared with 6.2 million euros in 2002.

Main achievements in 2003

Work concluded on a cooperative project between Marel hf and Carnitech A/S with a Norwegian party to develop an automatic pinbone detection and removal line for white fish. The project's principal aim was achieved: the line is able to completely remove bones from over 70% of fillets, in addition to significantly increasing yield of primary product. The line also turns out whole fillets, which increases the product's diversity. Two new machines were developed in connection with the project: a pinbone removal machine developed by Carnitech A/S, and a SensorX pinbone detection machine developed by Marel hf. Marel has already begun developing a machine that utilizes this X-ray technology to detect bones in poultry.

TSM portioning and grading system for poultry



In 2003 sales of the new TSM Profiler template slicing machine began, which slices poultry breasts into uniform portions of predetermined weight. These products are ideal for fast food chains and airlines that have precise requirements regarding portion size and appearance.

Several new MPS software modules were released in 2003. The MPS SmartPack is consulting software that calculates the outcome of product packing, thereby providing production managers with the tools to improve package grouping. MPS Portioning software interfaces with IPM3 portioning machines to create total solutions; Marel stands alone with this technology. MPS QC is a new, overall quality-control registration system that Marel can now offer its customers. The M6000 touchscreen monitor was developed in connection with the new registration system. This monitor will play an important role in Marel's processing systems in future. A powerful interface was also developed that links MPS production systems with the SAP and WiseFish information systems.

Marel also worked in cooperation with the Dutch company Stork PMT in developing grading solutions for chicken pieces, whereby Marel's weighing, batching and grading technology is integrated into Stork's transport system. Marel's involvement included expanding its check-bin technology, and developing a software interface. A check-bin grader both intelligently batches pieces and check-weighs portions. Such graders can automatically correct weight deviations and grading mistakes, ensuring that each package contains the proper fixed weight. The effectiveness of the cooperation between these two leading companies in the field of developing and implementing poultry-processing solutions is unique among their competitors. The first processing system of this type was installed in Germany at the end of 2003.

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.

Marel has seven 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, Marel TVM in Germany and Marel Australia, in addition to offices in Russia and Spain. Marel's subsidiaries conduct dynamic sales and marketing operations, and provide customer services. Marel has also contracted with over 30 agents to sell and service Marel products in many places around the world. More than two-thirds of Marel's sales are conducted through subsidiaries or direct from Marel.

The year 2003 was characterised by small investments in large projects, since customers postponed decisions regarding investment due to uncertainties relating to global economics. This was most apparent in the meat industry. However, sales to companies in the poultry industry rose during 2003. Marel responded to this downturn by placing additional emphasis on sales of standardised products and equipment, including those that fulfilled new market demands. A special slicing machine was developed which slices chicken breasts into uniform portions of predetermined weight to meet requirements of fast food chains. The unit has a special niche on the market, and sales were very good.

The price of salmon and other farmed species remained low, but the industry is adjusting to the new, low prices. Investment in processing salmonoid increased, but shifted from production countries to processing countries.

Sales to the traditional fisheries industry were satisfactory. Marel, along with Carnitech and Norwegian counterparts, have worked at developing new white-fish processing technology. The project concluded in the second half of 2003, and 2004 should see investment in the new technology. Product development and flexibility has enabled Marel to successfully meet the industry's needs with graders, portioning machines and processing systems.

The world's chicken industry is recovering after a difficult year, particularly in the USA, as operating conditions have improved widely. Diseases, however, can significantly effect production in individual countries, but production capacity in the world is so high that other countries can easily increase production to offset possible shortages. Sales of Marel equipment to the chicken industry was very good, particularly in the USA, as Marel was the first company to respond to new requirements made by grocery chains. Marel also achieved considerable results in Europe, strengthening its position in most countries. Changes in sales to the chicken industry is based to a large extend on new products or technologies to meet the aforementioned requirements.

After a difficult year in the meat industry it was anticipated that investment would increase in 2003, but this was not the case. Meat consumption has rebounded to its former level after experiencing a major downturn, but meat producers postponed major investments. Signs indicate that investment will return in 2004. Marel's sales network has been strengthened in regard to the meat industry, especially in the USA.

Marel's sales in 2003 were primarily made in Europe and North America where the distribution network is strongest. Reliable markets such as Norway turned out to be disappointing, but sales were acceptable to countries in mid- and north Europe where Marel has its own distribution network. Work continues on building up distant markets, and this effort has already resulted in growing sales.

The Perfect Partnership Program

Marel offers a Partnership Program that is tailored to meet the needs of different processing operations. The program consists of three service levels, Platinum, Gold and Silver. Each level is flexible and allows customers to choose different types of services, training and consultancy.

Production

Increase in productivity

Marel's production strategy for 2003 involved placing key emphasis on increasing productivity, since the prerequisites were created with investment in facilities and new capital goods. In addition, enhanced productivity is envisioned by increasing standardized products. In February 2003, the structure of production was changed to better support the manufacture of standardized products.

Production control of standardized products was also separated from other production control. Standardised products are made according to schedule, and have a shorter delivery time than systems that are tailor-made for the customer.

Emphasis on standardised products, product flow and costs

The good results achieved in the production of standardised products will be followed-up with an even sharper focus in 2004. Standardised products will increase during the year, and emphasis will be placed on flexibility to allow for shifting between production of dissimilar products with minimal changeover times. Maintaining short delivery times will also be a primary goal. Plans anticipate that standardised products will account for a larger share in overall sales, and jobs connected with this production will increase.

IPM III portioning machine

Service

Service is an ever-growing factor in Marel's operations. The importance of service for Marel and its customers is continuously expanding, and many new opportunities await discovery. Major installations of large processing systems marked operations in 2003, along with follow-up and standard repair and maintenance tasks.

Sales of service and spare parts, which are handled by the service department in Marel's organisational chart, have become an important part of the company's total revenue. The low exchange rate of the US dollar, however, resulted in revenue of spare part sales being just under that for 2002, while a considerable increase in revenue was recorded for service projects and service contracts that were in keeping with projections

Work began in 2003 on organising and preparing an ambitious service-contract system, which is intended to be an important element in Marel's future business. In addition to opening up new opportunities in a new field of business for Marel, the service contracts will raise the company's level of customer service. The service-contract system, which is already being promoted under the trade name, "The Perfect Partnership," will first be implemented in the USA and Iceland before being offered in other countries.

Platino 800 and IPM III LaserEye stripcut solution

Carnitech

Carnitech is a group of five companies: Carnitech a/s with headquarters in Jutland in Denmark, CP Food, also in Jutland, Carnitech US in Seattle in the US, Carnitech Norway, and Carnitech Asia in Bangkok, Thailand. All of these companies, except the last one, are involved in manufacturing.

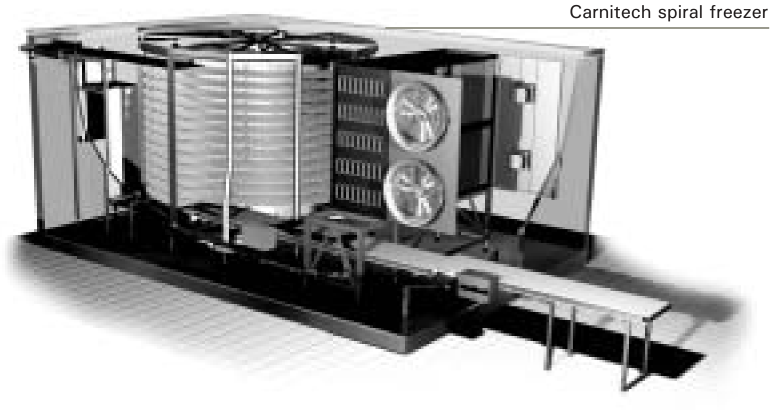
An average of 411 employees worked for Carnitech in 2003, a decrease of 14 from the previous year.

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–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 white fish. Carnitech also produces a variety of equipment to process farmed warmwater shrimp, other shellfish and salmon, both fresh and smoked.
- Meat processing equipment.
- Machinery to freeze, glaze and thaw.
- Various equipment made of stainless steel, for example lifting and discharge equipment for cases and tubs, fitments in cafeterias, furniture and other similar products.

Carnitech has developed a new machine to fillet fresh salmon. Sales to the salmon industry have increased as the state of the industry improves.

Carnitech spiral freezer



carnitech a/s

Outlook

The company's operational environment is difficult at the moment. The real exchange rate of the Icelandic króna and the low exchange rate of the US dollar have a major impact. Predictions are for increased economic growth and investment in the company's main markets in Europe and the USA. There are indications of this in the increased number of projects now in the preparatory stage. The outlook for company's earnings in 2004 is now considered reasonably good, though it is anticipated that the year will begin somewhat slowly.

Product development has proceeded well and various innovations, for example in portioning machines and grading systems, went on the market in 2003 and have resulted in an increased market share for the company. It is expected that new products entering the market in 2004 will strengthen the company's competitive position and further broaden its operational field.

Good results have been achieved in boosting productivity and reducing costs over the past few quarters. This work is ongoing, and special emphasis is now placed on escalating standardization of company products as well as increasing rationalisation in purchasing.

Marel's investment needs in housing and equipment will be minimal over the coming years, but the company will invest in product development and marketing to increase internal growth. During this year the company will strengthen its advances into markets outside Europe and the USA.

FINANCIAL STATEMENTS 2003

The Board and Managing Director's Report

Operating revenues of the Group according to the profit and loss account were EUR 108.6 million in the year compared to EUR 104 million in year 2002. Net profit of the Group amounted to EUR 3.7 million compared to EUR 50 thousand in the preceding year. Assets of the Group amounted to EUR 81.3 million according to the balance sheet and shareholders' equity amounted to EUR 25.1 million at year-end.

During the year an average of 773 employees were employed by the Group, with 273 employed by the parent company. Total wages and salaries for the group amounted to EUR 39.6 million.

The number of shareholders in Marel hf at year's end 2003 were 1,629, a decrease of 194 during the year. One shareholder had a holding interest of more than 10% in the company, Burdarás hf, which owned 32.59%.

The Board of Directors suggests that a dividend of 15% to be paid in the year 2004, 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 2003 with their signatures.

Reykjavík, 17 February 2004

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 2003. 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 - 13. 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, 2003 and the results of its operations and its cash flows for the year then ended, in accordance with law and generally accepted accounting standards in Iceland.

Reykjavík, 17 February 2004

PricewaterhouseCoopers hf

Gunnar Sigurðsson
Ólafur Þór Jóhannesson

Financial Ratios

	2003	2002	2001	2000	1999
Operating results					
Operating income	108,643	104,009	97,211	79,391	74,355
Profit before depreciation (EBITDA)	9,877	5,469	8,174	6,383	7,487
Operating profit (EBIT)	6,568	2,278	5,979	4,528	5,995
Net profit (loss)	3,749	50	2,106	(117)	4,306
Financial trends					
Funds from operations	6,366	2,373	4,606	5,300	5,708
Investing activities	(1,877)	(17,959)	(12,585)	(13,321)	620
Financial position					
Total assets	81,334	82,602	68,829	62,050	41,322
Working capital	18,191	12,740	14,978	22,458	14,840
Equity	25,167	22,724	23,654	23,722	11,256
Various figures in proportion to turnover					
Bought material	33.4%	32.8%	33.0%	33.0%	37.8%
Wages and benefits	40.1%	42.1%	39.4%	40.3%	35.2%
Other operating expenses	17.4%	19.9%	19.2%	18.7%	17.0%
Profit before depreciation (EBITDA)	9.1%	5.3%	8.4%	8.0%	10.1%
Depreciation	3.0%	3.1%	2.3%	2.3%	2.1%
Net income	3.5%	0.0%	2.2%	-0.1%	5.8%
Other key ratios					
Current ratio	1.8	1.4	1.6	2.0	1.8
Quick ratio	0.8	0.7	0.8	1.3	1.1
Equity ratio	30.9%	27.5%	34.4%	38.2%	27.2%
Return on owners' equity	16.5%	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.

Amounts in thousands of EUR

Profit and Loss Account for the Year 2003

	Notes	2003	2002
Operating revenues			
Sales of goods and services		106,452	100,654
Changes in work in progress and finished		799	1,348
Other income		1,392	2,007
		108,643	104,009
Operating expenses			
Bought material		36,282	34,117
Wages and benefits		43,549	43,763
Other operating expenses		18,935	20,660
Depreciation	6	3,309	3,191
		102,075	101,731
Operating profit		6,568	2,278
Financial income (expenses)	1		
Interest and exchange rate difference on long-term liabilities		(657)	(130)
Other financial income and expenses		(1,001)	(1,845)
		(1,658)	(1,975)
Profit on ordinary activities before taxation		4,910	303
Income tax	10	(1,110)	(179)
Net worth tax		(51)	(74)
		(1,161)	(253)
Net profit		3,749	50

Marel hf. Consolidated Financial Statements 2003 Amounts in thousands of EUR

Balance Sheet as of December 31, 2003

Assets	**Notes**	**2003**	**2002**
Fixed assets			
Intangible assets:			
Product development costs	2	499	500
Long-term costs	3	170	307
Goodwill	4	3,515	3,699
		4,184	4,506
Tangible fixed assets:	6		
Buildings and premises		25,471	25,676
Machinery and equipment		4,775	5,450
Fixtures and fittings		1,480	1,669
Other assets		1,384	1,668
		33,110	34,463
Investments and long-term debtors:			
Deferred tax assets	10	1,035	1,603
Shares in other companies	5	753	765
		1,788	2,368
Total fixed assets		39,082	41,337
Current assets			
Inventories	7	22,757	20,187
Trade debtors	8	13,345	15,723
Other debtors and prepayments		1,423	2,464
Cash and cash equivalents		4,727	2,891
		42,252	41,265
Total assets		81,334	82,602

Marel hf. Consolidated Financial Statements 2003 Amounts in thousands of EUR

Balance Sheet as of December 31, 2003

Equity and liabilities	**Notes**	**2003**	**2002**
Shareholders' equity	9		
Share capital		2,589	2,601
Share premium		10,794	11,293
Translation reserves		(1,196)	(681)
Retained earnings		12,980	9,511
		25,167	22,724
Liabilities			
Commitments:			
Deferred income tax liability	10	726	969
Contingent liabilities		491	611
		1,217	1,580
Long-term liabilities	11		
Debentures		6,997	7,599
Financial institutions borrowings		23,892	22,174
		30,889	29,773
Current liabilities			
Financial institutions borrowings		6,519	4,622
Trade creditors		5,908	7,554
Other current creditors		7,208	6,873
Prepaid income		1,193	2,532
Current portion of long-term liabilities	11	2,622	6,755
Accrued taxes payable		611	189
		24,061	28,525
Total liabilities		56,167	59,878
Total equity and liabilities		81,334	82,602
Mortgages	12		
Other information	13		

Marel hf. Consolidated Financial Statements 2003 Amounts in thousands of EUR

Cash Flow Statement for the Year Ended 2003

	2003	2002
Cash flows from operating activities		
Cash generated from operations:		
Net profit	3,749	50
Items not affecting cash:		
Depreciation	3,309	3,191
Amortisation of product development	252	243
Other items	(944)	(1,111)
	6,366	2,373
Decrease (increase) in operating items:		
Trade debtors and other debtors	3,139	960
Inventories	(2,569)	(831)
Current liabilities	(2,032)	(2,068)
	(1,462)	(1,939)
Net cash from operating activities	4,904	434
Cash flows from investing activities		
Purchase of tangible fixed assets	(1,891)	(14,419)
Proceeds from sale of tangible fixed assets	333	266
Purchase of shares in other companies	(22)	(3,556)
Changes in long-term receivables	84	243
Capitalised product development cost	(251)	(243)
Capitalised long-term cost	(130)	(250)
	(1,877)	(17,959)
Cash flows from financing activities		
New long-term liabilities	12,519	20,728
Repayments of long-term liabilities	(14,817)	(4,492)
Changes in short-term borrowings	1,897	1,193
Dividends paid	(280)	(390)
Changes in own shares	(510)	(133)
	(1,191)	16,906
Increase (decrease) in cash	1,836	(619)
Cash and cash equivalents at beginning of year	2,891	3,510
Cash and cash equivalents at end of year	4,727	2,891

Marel hf. Consolidated Financial Statements 2003 Amounts in thousands of EUR

Accounting Policies

Basis of preparation

The Consolidated Financial Statements for Marel hf and the Financial Statements for the parent company are made in accordance with the Financial Statements Act. Amounts are stated in euros, which is the operational currency of the group. 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.

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

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 instead 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 year-end exchange rate. 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 year, except for depreciation of fixed assets. Due to these changes, an exchange rate difference of EUR 209 thousand has been charged to the profit and loss account.

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 Deutschland GmbH is the subsidiary of Marel TVM GmbH & Co KG and the subsidiaries of Carnitechs AS are Carnitech Asia Ltd., Carnitech US Inc., Carnitech Norway AS and CP Food AS.

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 year, but balance sheet items are translated into EURO using the year-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 the description earlier in the chapter about changes in accounting policies.

The Financial Statements of the Group have been prepared by adding together similar 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.

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 2004. 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.

Accounting Policies

Profit and loss account

Revenue recognition

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

Gains and losses from cash flow hedges, which relate to certain sales agreements, are classified as sales revenue in the profit and loss account when the sale takes place.

Changes of work in progress and finished goods

Changes of work in progress and finished goods show 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.

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 equipment 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 years, but 3 - 10 years on other tangible fixed assets.

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.

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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.

Inventories

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. Bad debts are written off when identified.

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.

Accounting Policies

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.

Dividends

Dividends are recorded in the Group's Financial Statements in the period in which they are approved by the Group's shareholders.

Comparative year's figures

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

Notes

1. Financial income (expenses)

	Long-term liabilities	Other items	Total 2003	Total 2002
Interest income	0	222	222	125
Interest expenses	(1,532)	(372)	(1,904)	(2,320)
Exchange rate differences	875	(851)	24	274
Shares in companies written down	0	0	0	(54)
	(657)	(1,001)	(1,658)	(1,975)

2. Product development

	2003	2002
Product development 1/1	500	500
Additions	251	243
Amortisation	(252)	(243)
	499	500

3. Long-term costs

	2003	2002
Long-term cost 1/1	307	281
Additions	130	250
Amortisation	(267)	(224)
	170	307

4. Goodwill

	2003	2002
Goodwill 1/1	3,699	396
Exchange rate difference	(9)	3
Additions	22	3,491
Amortisation	(197)	(191)
	3,515	3,699

5. Shares in other companies

	Ownership	Nominal value	Book value
Eignarhaldsfélag hlutafélaga ehf	1.43%	ISK 329	4
Stáltak hf	7.29%	ISK 13,235	146
Arbor SA	50.00%	EUR 168	603
			753

Marel hf. Consolidated Financial Statements 2003 Amounts in thousands of EUR

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	(20)	(100)	(73)	(11)	(204)
Additions	499	649	331	412	1,891
Sales	0	(302)	(91)	(228)	(621)
Total value 31/12	27,104	10,910	3,522	4,554	46,090
Acc. depr. 1/1	949	5,213	1,686	2,713	10,561
Exchange rate difference	(2)	(76)	(49)	(11)	(138)
Depreciation	686	1,083	464	612	2,845
Sales	0	(85)	(59)	(144)	(288)
Total depreciation 31/12	1,633	6,135	2,042	3,170	12,980
Net book value 31/12 2003	25,471	4,775	1,480	1,384	33,110

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

Depreciation of tangible fixed assets	2,845
Amortisation of long-term costs	267
Amortisation of goodwill	197
	3,309

7. Inventories

	2003	2002
Raw materials and spare parts	9,491	9,475
Work in progress	2,815	1,550
Ordered work in progress	6,064	3,855
Finished goods	4,387	5,307
	22,757	20,187

8. Trade debtors

Domestic trade debtors	473	471
Foreign trade debtors	12,872	15,252
	13,345	15,723

Marel hf. Consolidated Financial Statements 2003 Amounts in thousands of EUR

Notes

9. Equity

Share capital

Total share capital of the company amounted to ISK 240 million at year-end of which ISK 4.3 million were owned by the company itself. One vote is for each share of ISK 1, par value.

Changes in shareholders' equity

	Share capital	Share premium	Translation reserves	Retained earnings	Total
Balance 1/1	2,601	11,293	(681)	9,511	22,724
Bought own shares	(12)	(499)			(511)
Exchange rate difference of shares in foreign subsidiaries			(515)		(515)
Dividend paid				(280)	(280)
Net profit				3,749	3,749
Balance 31/12 2003	2,589	10,794	(1,196)	12,980	25,167

10. Deferred income tax liability (assets)

Change in deferred income tax liability analysis as follows:

Deferred income tax liability (asset) at year beginning	(634)
Exchange rate difference due to foreign subsidiaries	15
Income tax on regular operation	1,110
Income tax payable	(800)
	(309)
Deferred income tax assets stated with investments and other long-term debtors	1,035
	726

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

Tangible fixed assets	900
Goodwill	(13)
Taxable loss carried forward	(1,430)
Other items	234
	(309)

Marel hf. Consolidated Financial Statements 2003 Amounts in thousands of EUR

Notes

11. Long-term liabilities

Liabilities in foreign currency	
Liabilities in DKK	5,714
Liabilities in EUR	22,122
Liabilities in JPY	1,137
Liabilities in USD	4,348
Liabilities in other currency	102
	33,423
Liabilities, index-linked in ISK	88
	33,511
Current maturates	(2,622)
	30,889

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

Year 2004	2,622
Year 2005	2,769
Year 2006	5,463
Year 2007	2,402
Year 2008	2,208
Later	18,047
	33,511

12. Mortgages

Loans amounting to EUR 15.1 million are secured with mortgages and pledges against the Group's buildings. Loans with an outstanding balance of EUR 14.1 million are secured with mortgages and pledges against the Groups other assets.

13. Other information

Operating lease

The Group has made some rental agreements for buildings, motor vehicles and office equipment, now with the remaining balance of EUR 1.6 million. The amount will be charged at the relevant rental time of each agreement. The rental agreements will materialise in the years 2004 - 2007.

Insurance

The Group has bought a loss of profit insurance which will cover work stoppage for up to 12 months, based on terms of operation insurance agreement. The insurance benefits amounts up to EUR 48 million. The Group insurance value of buildings amounts to EUR 24 million, production machinery and equipment including software and office equipment amounts to EUR 20 million, and stock to EUR 20.4 million.

Marel hf. Consolidated Financial Statements 2003 Amounts in thousands of EUR

Notes

Personnel

Wages and benefits

Wages	39,565
Benefits	3,984
	43,549
Average number of employees	773

Managment salaries and benefits

	Payroll and benefits	Stock options*	Selling rights*	Shares at year-end*
Managing Director	263	11	13	19
Chairman of the Board of Directors	10	0	0	2
Four other members of the Board of Directors	19	0	0	9
Alternates	2	0	0	0
Seven Directors	987	25	31	62
	1,281	36	44	92

* Shares are at nominal value in thousands of EURO.

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

The above mentioned selling rights are part of a buying of 5.2 million shares, at the price ISK 20 pr. share, by a few employees of the company. Parallel to this transaction Marel hf gave the buyers selling rights for bought shares to protect them for possible loss due to the transactions.

The managing director, board members and directors owed the company nothing at the year end 2003.

Stock option agreements

At the beginning of year 2001 the parent company entered into an option schema whereby the company's employees can obtain ISK 8,580,000 shares, at the price ISK 42 pr. share, to be exercised in the years 2002 - 2007. To be able to fulfil this schema the company will use a permission to buy own shares or issue additional shares in accordance with a resolution of the company's annual general meeting on March 17, 2000.

Fees to Auditors

Audit of financial statements	162
Review of interim financial statements	40
Other services	66
	268

Marel hf
Annual Report 2003
21st Operational Year
Annual General Meeting 5 March 2004

Marel hf
Gardabaer, Iceland
Tel: +354 563 8000
info@marel.com

Marel USA Inc.
Lenexa, KS, USA
Tel: +1 913 888 9110
info@marelusa.com

Marel Canada
Dartmouth, NS, Canada
Tel: +1 902 468 5181
info@marel.ca

Marel Scandinavia
Støvring, Denmark
Tel: +45 99 86 74 00
info@marel.com

Marel Deutschland
Osnabrück, Germany
Tel: +49 (0)541 500 97 0
info@marel.com

Marel Australia PTY LTD
Morningside QLD, Australia
Tel: +61 (0)7 3395 8044
info@marel.com

Marel Russia
Moscow, Russia
Tel: +(095) 956 54 91
info@marel.com

Marel UK
Bromsgrove, England
Tel: +44 1527 880225
info@marel.com

Marel Spain
Vilagarcía de Arousa, Spain
Tel: + 34 609 67 57 36
diego@marel.com

Marel TVM
Bruckmühl/Heufeld, Germany
Tel: +49 8061 3877 0
info@mareltvm.de

Arbor Technologies
Landevant, France
Tel: +33 297 56 96 96
arbor.technologies@wanadoo.fr

Carnitech A/S
Støvring, Denmark
Tel: +45 99 86 40 00
ct@carnitech.dk

CP Food Machinery
Hjørring, Denmark
Tel: +45 98 92 15 11
cpfood@cpfoodmachinery.com