

Board of Directors of Marel hf.
Ásthildur Margrét Otharsdóttir, Chairman of the Board
Austurhraun 9, 210 Garðabær



Reykjavík, 24/02/2018

Re: Amendment proposal for the Annual General Meeting (AGM) of Marel on 6 March 2018

The pension fund Brú lífeyrissjóður, as a shareholder of the company, requests that the following items be dealt with, cf. the first paragraph of Art. 86 of Act No. 2/1995.

Firstly, Brú lífeyrissjóður proposes an amendment to the company's Remuneration Policy regarding *long-term incentives in the form of stock options*, as stated in Point 2 of the proposal of the Board of Directors to the AGM.

The sentence:

"Marel has adopted a stock option scheme aimed at linking the interests of its executives and selected employees in key positions with the long-term objectives of the company and its shareholders."

will be followed by the following sentence:

"The exercise price of stock options shall increase by 6% annually from the date the options are granted with the initial exercise price based on the closing price of shares in Marel in EUR on NASDAQ Iceland on the date of allocation (based on the mid rate quoted by the Central Bank of Iceland)."

With this amendment the paragraph will then read as follows:

"Long-term incentives in the form of stock options. Marel has adopted a stock option scheme aimed at linking the interests of its executives and selected employees in key positions with the long-term objectives of the company and its shareholders. The exercise price of stock options shall increase by 6% annually from the date the options are granted with the initial exercise price based on the closing price of shares in Marel in EUR on NASDAQ Iceland on the date of allocation (based on the mid rate quoted by the Central Bank of Iceland). The principal features of the stock option scheme and option contracts shall be submitted to a shareholders' meeting for approval."

Rationale:

In 2015, the exercise price of stock option agreements rose by 3% annually, in 2016, this figure dropped to 2%, and the current Remuneration Policy assumes that the exercise price will not change from one year to the next. Furthermore, the number of shares granted as options has not decreased in line with the higher price of shares in Marel hf. on the market, which in turn means that the same increase in relative terms has a greater impact on the value of stock options than before. In addition, the company's Remuneration Policy previously set a cap on anticipated return as a proportion of salary, and options could be exercised in stages.

The motion for a 6% annual increase in the exercise price would further align the interests of shareholders and key employees. Consideration must also be given to the fact that stock option holders bear no risk if the company's share price declines; the risk on own shares lies with the company's shareholders and the company itself. The cost of equity is the cost which the company's shareholders bear and therefore it is appropriate to take this into consideration in the design of the stock option scheme. In the estimation of Brú lífeyrissjóður, the cost of equity is considerably higher than 6% for the company, and the key employees benefit from this.

The profit on stock options gained by the company's CEO amounts to hundreds of millions if the share price increases by around 10% per year. Based on those stock options held by the CEO and the exercise price under the most recent contracts, the profit will amount to around ISK 200 million in three years' time (without regard for taxes) by simply achieving a 10% yield on equity (based on a fixed exchange rate). This is, in fact, an underestimate, as older stock options were concluded at a lower exercise price and if additional options are

added each year the return could be considerably higher.

In the estimation of Brú lífeyrissjóður, stock options can lead to higher risk appetite and greater emphasis on share price than on operations if employees' interests have become excessive. Stock options can lead to a company reducing investment and/or even the necessary R&D costs simply in order to improve short-term performance at the expense of long-term profitability. Such situations can highlight different emphases, as the interests of shareholders will no longer match those of company executives. The investment strategy of the pension fund Brú lífeyrissjóður always reflects the interests of its fund members. For this reason, Brú always looks to the longer term and uses its influence wherever possible in the companies in which it invests to ensure the focus is on sound and healthy operations over the long term.

Those employees with whom the Board has concluded stock option contracts are to retain shares equivalent to the net profit on those stock options, taking taxes into consideration, until their term of employment with the company ends. A situation could arise where, if the company faces operational difficulties, employees with significant interests at stake in options and shares could elect to leave the company and release their options and shares instead of standing by it when they are most needed. The original objective behind the stock options could therefore have an effect completely opposite to that which was intended. The Board of Directors is furthermore urged to have the amount of such options increase no more than the wage index each year (i.e. exercise price x no. of shares). The company purchases shares on the market in part to fulfil its stock option contracts and, should they not be used as a result of a decline in the company's share price, the company will have purchased these shares at an excessively high price. Issuing new shares to comply with such agreements results in thinning out the holdings of other shareholders. A stock option scheme is therefore not without cost.

The fact cannot be ignored that another incentive system exists where payments to key employees can amount to tens of percent of total wages if predefined financial and non-financial targets are met. Additionally, one might consider it sensible for the company's remuneration policy to benefit its employees on a broad basis.

Secondly, the pension fund Brú lífeyrissjóður proposes the following amendment to Point 3 of the proposal of the Board of Directors to the AGM, which concerns remuneration to directors.

It is proposed that the first sentence of Point 3 of the Board's proposal be as follows:

“Remuneration to directors for the year 2018 will be EUR 3,250 per month.”

Rationale:

The increase proposed by the Board amounts to 17%, from EUR 3000 to EUR 3,500. The percentage increase in ISK is even higher based on the exchange rate at the last AGM. According to this motion for amendment, remuneration to directors would increase by 8% in EUR terms over the past year, which is considered generous. By comparison, according to measurements by Statistics Iceland the wage index rose by 6.9% from December 2016 to the same month of 2017. The ISK exchange rate against the EUR also decreased slightly since December 2016.

Reykjavík, 24/02/2018



Gerður Guðjónsdóttir
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