

**Marell hf**

**Consolidated Financial Statements  
June 30, 2002**

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## **The Board and Managing Director's Report**

The Board of Directors and Managing Director of Marel hf hereby ratify the interim Financial Statements of Marel hf for the period January 1 to June 30, 2002 with their signatures

Reykjavík, August 14, 2002

**Managing Director**

## **Auditor's report**

We have reviewed the interim Financial Statements of Marel hf for the period January 1 - June 30, 2002 and comparative figures 2001. The interim Financial Statements include Consolidated Statements of the Group.

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

Based on our review we are not aware of any material modifications that should be made to the accompanying interim Financial Statements in order for them to be in conformity with generally accepted accounting principle.

Reykjavik, August 14, 2002

**PricewaterhouseCoopers ehf**

## Five-Year Summary

	2002 1.1-30.6	2001 1.1-31.12	2000 1.1-31.12	1999 1.1-31.12	1998 1.1-31.12
<b>Various figures in proportion to turnover</b>					
Bought material .....	29,2%	33,0%	33,0%	37,8%	34,3%
Wages and benefits .....	41,4%	39,4%	40,3%	35,2%	41,0%
Other operating expenses .....	22,4%	19,2%	18,7%	17,0%	19,1%
Depreciation .....	2,4%	2,3%	2,3%	2,1%	3,1%
Net income .....	2,4%	2,2%	-0,1%	5,8%	0,2%
<b>Other key ratios</b>					
Current ratio .....	1,3	1,6	2,0	1,8	2,0
Quick ratio .....	0,7	0,8	1,3	1,1	1,3
Equity ratio .....	29,1%	34,4%	38,2%	27,2%	18,1%
Return on owners' equity .....	10,9%	9,4%	-1,0%	65,6%	1,8%

## Profit and Loss Account, January - June 2002

	Notes	2002 1.4 - 30.6	2002 1.1 - 30.6	2001 1.1 - 30.6
<b>Operating revenues</b>	1			
Sales of goods and services .....		26.301	51.253	41.038
Changes in work in progress and finished .....		(477)	358	502
Other income .....		681	1.052	691
		<u>26.505</u>	<u>52.663</u>	<u>42.231</u>
<b>Operating expenses</b>				
Bought material .....		7.499	15.382	11.547
Wages and benefits .....		10.860	21.804	17.798
Other operating expenses .....		6.114	11.783	9.026
Depreciation .....	6	620	1.257	979
		<u>25.093</u>	<u>50.226</u>	<u>39.350</u>
<b>Operating profit (loss)</b>		1.412	2.437	2.881
<b>Financial income (expenses)</b>	2			
Interest and exchange rate difference on long-term liabilities .....		685	393	(2.156)
Other financial income and expenses .....		(897)	(1.164)	773
		<u>(212)</u>	<u>(771)</u>	<u>(1.383)</u>
<b>Profit on ordinary activities before taxation</b>		1.200	1.666	1.498
Calculated income tax .....	11	(374)	(330)	(833)
Calculated net worth tax .....		(23)	(48)	(106)
		<u>(397)</u>	<u>(378)</u>	<u>(939)</u>
<b>Net profit</b>		<u>803</u>	<u>1.288</u>	<u>559</u>

## Balance Sheet as of June 30, 2002

Assets	Notes	30.6 2002	31.12 2001
<b>Fixed assets</b>			
Intangible assets:			
Product development costs .....	3	500	500
Long-term costs .....	4	293	281
Goodwill .....	5	3.919	396
		<u>4.712</u>	<u>1.177</u>
Tangible fixed assets:	6		
Buildings and premises .....		23.051	15.815
Machinery and equipment .....		4.337	3.904
Fixtures and fittings .....		1.671	1.590
Other assets .....		1.973	1.975
		<u>31.032</u>	<u>23.284</u>
Investments and long-term debtors:			
Deferred tax assets .....	11	1.179	1.239
Shares in other companies .....	7	761	743
Long-term debtors and bonds .....		147	212
		<u>2.087</u>	<u>2.194</u>
<b>Total fixed assets</b>		37.831	26.655
<b>Current assets</b>			
Stock .....	8	20.588	19.356
Current portion of long-term debtors and loans .....		143	120
Trade debtors .....	9	17.642	15.689
Other debtors and prepayments .....		3.453	3.499
Cash and cash equivalents .....		2.704	3.510
		<u>44.530</u>	<u>42.174</u>
<b>Total assets</b>		<u><u>82.361</u></u>	<u><u>68.829</u></u>

## Balance Sheet as of June 30, 2002

Equity and liabilities	Notes	30.6 2002	31.12 2001
<b>Shareholders' equity</b>	10		
Share capital .....		2.601	2.606
Legal reserve .....		11.181	11.197
Translation difference .....		(528)	0
Retained earnings .....		10.749	9.851
		<u>24.003</u>	<u>23.654</u>
<b>Liabilities</b>			
Commitments:			
Deferred income tax liability .....	11	919	890
Contingent liabilities .....		894	447
		<u>1.813</u>	<u>1.337</u>
Long-term liabilities	12		
Debentures .....		3.070	5.960
Financial institutions borrowings .....		19.041	10.682
		<u>22.111</u>	<u>16.642</u>
Current liabilities			
Financial institutions borrowings .....		7.059	3.429
Trade creditors .....		9.952	9.768
Other current creditors .....		6.671	6.632
Prepaid income .....		3.778	2.544
Current portion of long-term liabilities .....	12	6.814	4.422
Accrued taxes payable .....		160	401
		<u>34.434</u>	<u>27.196</u>
<b>Total liabilities</b>		58.358	45.175
<b>Total equity and liabilities</b>		<u>82.361</u>	<u>68.829</u>
<b>Mortgages</b>	13		
<b>Commitments</b>	14		



## Cash flow statement 1/1-30/6 2002

	2002 1.1 - 30.6	2001 1.1 - 30.6
<b>Cash flows from operating activities</b>		
Cash generated from operations:		
Net profit .....	1.288	559
Items not affecting cash:		
Depreciation .....	1.257	979
Amortisation of product development .....	122	131
Other items .....	(684)	2.149
	<u>1.983</u>	<u>3.818</u>
Decrease (increase) in operating items:		
Trade debtors and other debtors .....	(2.034)	(5.685)
Stock .....	(1.233)	(2.447)
Current liabilities .....	1.342	578
	<u>(1.925)</u>	<u>(7.554)</u>
<b>Net cash from (to) operating activities</b>	<u>58</u>	<u>(3.736)</u>
<b>Cash flows from investing activities</b>		
Purchase of tangible fixed assets .....	(10.628)	(4.008)
Proceeds from sale of tangible fixed assets .....	1.698	181
Purchase of goodwill .....	(3.528)	0
Changes in bonds and long-term debtors .....	(23)	40
Capitalised product development cost .....	(122)	(129)
Capitalised long-term cost .....	(99)	(84)
	<u>(12.702)</u>	<u>(4.000)</u>
<b>Cash flows from financing activities</b>		
New long-term liabilities .....	9.847	5.381
Repayments of long-term liabilities .....	(1.116)	(663)
Changes in short-term borrowings .....	3.630	(1.477)
Dividends paid .....	(390)	(289)
Changes in own shares .....	(133)	0
	<u>11.838</u>	<u>2.952</u>
<b>Decrease in cash</b>	<u>(806)</u>	<u>(4.784)</u>
Cash at beginning of year .....	3.510	12.015
<b>Cash at end of period</b>	<u><u>2.704</u></u>	<u><u>7.231</u></u>

## Accounting Policies

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

### Changes in currency and accounting policies

In accordance with 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. The translation of operating items from Icelandic kronur into the currency of Euro is based on average exchange rates of the period but the balance sheet items are translated at the year end 2001 exchange rate.

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 286 thousand higher, if general price-level adjustments had not been used when preparing those Financial Statements.

### The Group's Financial Statements

The interim Consolidated Financial Statements of Marel hf include the interim Financial Statements for Marel hf, and its subsidiaries. The subsidiaries, all totally owned by Marel hf, are Marel Australia Pty Ltd, Marel Equipment Inc., Marel France SA, Marel Scandinavia A/S, Marel UK Ltd., Marel USA Inc., Marel Management GmbH, Marel TVM GmbH & Co KG and Carnitech A/S. 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 period 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 interim Financial Statements of the Group have been prepared by adding together like items of assets, liabilities, income and expenses from the interim Financial Statements of individual Group companies but eliminating unrealised gain and intragroup balances, transactions and investments.

### Valuation methods

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

## **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 July 2002. Assets and liabilities in other currency than Euro are translated into the currency of Euro at the June-end rates of exchange. Exchange rate differences from monetary assets and liabilities are recorded in Marel hf profit and loss account.

### **Profit and loss account**

#### **Revenue recognition**

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

#### **Changes of work in progress and finished goods**

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

#### **Other income**

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

#### **Calculated income tax**

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

### **Balance sheet**

#### **Product development cost**

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

#### **Long-term cost**

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

## Accounting Policies

### Goodwill

The goodwill arises due to Carnitech's 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 year but 3 - 10 year on other tangible fixed assets.

### Finance leases

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

### Investments in other companies

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

### Stock

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

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

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

In those incidents when expected selling price of goods after deducting cost of full production and sale (market price) is lower than purchase price or production cost price, those goods are valued at market price.

### 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 period according to the statement of cash flows includes cash and current bank deposits.

### **Deferred income tax liability (assets)**

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

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

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

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

### **Contingent liabilities**

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

## Notes

### 1. Operating revenue

	2002 1.1-30.6	2001 1.1-30.6
Marel hf and "Marel" companies .....	30.395	23.022
Carnitech A/S and its subsidiaries .....	22.268	19.209
	<u>52.663</u>	<u>42.231</u>

### 2. Financial income (expenses)

	Long-term liabilities	Other items	Total 1.1-30.6 2002	Total 1.1-30.6 2001
Interest and indexation income .....	0	31	31	497
Interest and indexation expenses .....	(609)	(385)	(994)	(843)
Exchange rate differences .....	1.002	(756)	246	(755)
	<u>393</u>	<u>(1.110)</u>	<u>(717)</u>	<u>(1.101)</u>
Computed price-level adjustment .....	0	0	0	(282)
Shares in companies written down .....	0	(54)	(54)	0
	<u>393</u>	<u>(1.164)</u>	<u>(771)</u>	<u>(1.383)</u>

### 3. Product development

	30.6 2002	31.12 2001
Product development 1/1 .....	500	451
Revaluation in the year .....	0	49
Addition in the year .....	122	247
Amortisation of the year .....	(122)	(247)
	<u>500</u>	<u>500</u>

### 4. Long-term costs

Long-term cost 1/1 .....	281	281
Revaluation in the year .....	0	31
Addition in the year .....	99	158
Amortisation of the year .....	(87)	(189)
	<u>293</u>	<u>281</u>

### 5. Goodwill

Goodwill 1/1 .....	396	386
Revaluation in the year .....	93	17
Addition in the year .....	3.528	0
Amortisation of the year .....	(98)	(7)
	<u>3.919</u>	<u>396</u>

## 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 .....	16.055	8.437	3.901	4.665	33.058
CP Food 1/1 .....	804	295	339	0	1.438
Exchange rate difference ...	5	(41)	(73)	(88)	(197)
Additions .....	6.811	2.310	261	404	9.786
Sales .....	0	(1.558)	(220)	(120)	(1.898)
Total value 30/6 .....	23.675	9.443	4.208	4.861	42.187
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 ...	3	(36)	(34)	(48)	(115)
Depreciation .....	102	430	232	308	1.072
Sales .....	0	(41)	(69)	(62)	(172)
Total depreciation 30/6 .....	624	5.106	2.537	2.888	11.155
Net book value 30/6 2002	23.051	4.337	1.671	1.973	31.032

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

Depreciation of tangible fixed assets .....	1.072
Amortisation of long-term costs .....	87
Amortisation of goodwill .....	98
	<u>1.257</u>

### 7. Shares in other companies

	Ownership	Nominal value	Book value
Eignarhaldsfélag hlutafélaga ehf .....	1,43%	ISK 329	5
Státtak hf .....	9,03%	ISK 13.235	153
Arbor SA .....	50,00%	EUR 168	603
			<u>761</u>

## Notes

	30.6 2002	31.12 2001
<b>8. Stock</b>		
Raw materials and spare parts .....	10.316	8.305
Work in progress .....	2.451	2.214
Ordered work in progress .....	4.213	5.442
Finished goods .....	3.608	3.395
	<u>20.588</u>	<u>19.356</u>

## 9. Trade debtors

Domestic trade debtors .....	790	176
Foreign trade debtors .....	16.852	15.513
	<u>17.642</u>	<u>15.689</u>

## 10. Equity

### Share capital

Total share capital of the company amounted to ISK 240 million at the end of June 2002 of which ISK 3,3 million were owned by the company itself.

### 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 on charged older goodwill .....		112			
Translation difference of shares in foreign com. ....			(528)		
Dividend paid .....					(390)
Net profit for the period .....					1.288
Balance 30/6 .....	<u>2.601</u>	<u>11.181</u>	<u>(528)</u>	<u>0</u>	<u>10.749</u>



## Notes

### 11. Deferred income tax liability (assets)

Change in deferred income tax liability for the period analysis as follows:

Deferred income tax liability (asset) at beginning of period .....	(349)
CP Food Machinery A/S .....	104
Exchange rate difference due to foreign subsidiaries .....	(11)
Income tax effects on charged older goodwill .....	(112)
Income tax on regular operation .....	330
Income tax payable .....	(222)
	<u>(260)</u>
Deferred income tax assets stated with investments and other long-term debtors .....	1.179
	<u>919</u>

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

Tangible fixed assets .....	430
Goodwill .....	(260)
Taxable loss carried forward .....	(1.223)
Other items .....	793
	<u>(260)</u>

### 12. Long-term liabilities

Liabilities in foreign currency	
Liabilities í USD .....	7.182
Liabilities í DKK .....	8.821
Liabilities í NOK .....	623
Liabilities í GBP .....	725
Liabilities í JPY .....	2.825
Liabilities í SEK .....	119
Liabilities í CHF .....	353
Liabilities í EUR .....	7.545
	<u>28.193</u>
Liabilities, index-linked in ISK .....	89
Finance lease liabilities .....	643
	<u>28.925</u>
Current maturates .....	(6.814)
	<u>22.111</u>

## Notes

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

Period 1/7 2002 - 30/6 2003 .....	6.814
Period 1/7 2003 - 30/6 2004 .....	1.649
Period 1/7 2004 - 30/6 2005 .....	4.630
Period 1/7 2005 - 30/6 2006 .....	4.332
Period 1/7 2006 - 30/6 2007 .....	874
Later .....	10.626
	<u>28.925</u>

### 13. Mortgages

To secure the remaining balance of liabilities amounting to EUR 480 thousand at the end of the period, the parent company has collateralized various liquid assets of the company. Búnaðarbanki Íslands has at the same time a lien in the company's stock amounting to EUR 2.088 thousand and in the companies new building amounting to EUR 7.322 thousand.

To secure a loan from the Nordisk Investeringsbank, now with the remaining balance of 1.502 thousand EUR the company has collateralized its shares in Stáltak hf, nominal value of ISK 13,2 million, the company's trademarks and patents. Also in connection with that loan, the company has promised not to sell its shares in Carnitech A/S or Carnitech A/S shares in its subsidiaries without the bank's agreement.

Carnitech A/S has mortgaged fixed assets to secure its liabilities, the remaining balance of EUR 7.309 thousand.

### 14. Commitments

The Group has made some rental agreements for building, motor vehicles and office equipment, now with the remaining balance of EUR 2.558 thousand. The amount will be charged against income at the relevant rental time of each agreement. The rental agreements will materialise in the years 2002 - 2006.

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. To be able to fulfil this schema the company will use a permission to buy own shares or issue additional shares in accordance with an agreement of the company's annual general meeting on March 17, 2000.