Marel hf

Consolidated Financial Statements
September 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 September 30, 2002 with their signatures

Reykjavík, November 8, 2002

Þorkell Sigurlaugsson
Arnar Þór Másson
Heimir Haraldsson
Þórólfur Árnason

Managing Director

Hörður Arnarson

Five-Year Summary

	2002 1.1-30.9	2001 1.1-31.12	2000 1.1-31.12	1999 1.1-31.12	1998 1.1-31.12
Various figures in proportion to turnover					
Bought material	31,9%	33,0%	33,0%	37,8%	34,3%
Wages and benefits	42,9%	39,4%	40,3%	35,2%	41,0%
Other operating expenses	21,8%	19,2%	18,7%	17,0%	19,1%
Depreciation	3,1%	2,3%	2,3%	2,1%	3,1%
Net income	-1,5%	2,2%	-0,1%	5,8%	0,2%
Other key ratios					
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	25,2%	34,4%	38,2%	27,2%	18,1%
Return on owners' equity	-6,3%	9,4%	-1,0%	65,6%	1,8%

Profit and Loss Account, January - September 2002

	Notes	2002 1.7 - 30.9	2002 1.1 - 30.9	2001 1.1 - 30.9
Operating revenues				
Sales of goods and services		21.511	72.764	65.183
Changes in work in progress and finished		1.102	1.460	(142)
Other income		372	1.424	977
		22.985	75.648	66.018
Operating expenses				
Bought material		8.779	24.161	20.399
Wages and benefits		10.682	32.486	26.882
Other operating expenses		4.729	16.512	13.406
Depreciation	5	1.069	2.326	2.019
		25.259	75.485	62.706
Operating profit (loss)		(2.274)	163	3.312
Financial income (expenses)	1			
Interest and exchange rate difference on long-term liabilities		(449)	(56)	(2.696)
Other financial income and expenses		(266)	(1.430)	834
		(715)	(1.486)	(1.862)
Profit (loss) on ordinary activities before taxation		(2.989)	(1.323)	1.450
Calculated income tax	10	585	255	(962)
Calculated net worth tax		(9)	(57)	(158)
		576	198	(1.120)
Net profit (loss)		(2.413)	(1.125)	330

Marel hf. Interim Consolidated Financial Statements September 30, 2002 Amounts in thousands of EUR

Balance Sheet as of September 30, 2002

Assets	Notes	30.9 2002	31.12 2001
Fixed assets			
Intangible assets:			
Product development costs	2	500	500
Long-term costs	3	265	281
Goodwill	4	3.868	396
		4.633	1.177
Tangible fixed assets:	5		
Buildings and premises		25.081	15.815
Machinery and equipment		5.592	3.904
Fixtures and fittings		1.769	1.590
Other assets		1.966	1.975
		34.408	23.284
Investments and long-term debtors:			
Deferred tax assets	10	1.722	1.239
Shares in other companies	6	763	743
Long-term debtors and bonds		0	212
		2.485	2.194
Total fixed assets		41.526	26.655
Current assets			
Stock	7	21.512	19.356
Current portion of long-term debtors and loans		109	120
Trade debtors	8	14.530	15.689
Other debtors and prepayments		3.218	3.499
Cash and cash equivalents		5.314	3.510
		44.683	42.174
Total assets		86.209	68.829

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Balance Sheet as of September 30, 2002

Equity and liabilities	**Notes**	**30.9 2002**	**31.12 2001**
Shareholders' equity	9		
Share capital		2.601	2.606
Legal reserve		11.237	11.197
Translation difference		(436)	0
Retained earnings		8.336	9.851
		21.738	23.654
Liabilities			
Commitments:			
Deferred income tax liability	10	910	890
Contingent liabilities		875	447
		1.785	1.337
Long-term liabilities	11		
Debentures		3.072	5.960
Financial institutions borrowings		25.879	10.682
		28.951	16.642
Current liabilities			
Financial institutions borrowings		8.702	3.429
Trade creditors		7.573	9.768
Other current creditors		6.554	6.632
Prepaid income		3.479	2.544
Current portion of long-term liabilities	11	7.345	4.422
Accrued taxes payable		82	401
		33.735	27.196
Total liabilities		64.471	45.175
Total equity and liabilities		86.209	68.829
Mortgages	12		
Commitments	13		

Marel hf. Interim Consolidated Financial Statements September 30, 2002 Amounts in thousands of EUR

Cash flow statement 1/1-30/9 2002

	2002 1.1 - 30.9	2001 1.1 - 30.9
Cash flows from operating activities		
Cash generated from operations:		
Net profit (loss)	(1.125)	330
Items not affecting cash:		
Depreciation	2.326	2.019
Amortisation of product development	182	196
Other items	(760)	1.822
	623	4.367
Decrease (increase) in operating items:		
Trade debtors and other debtors	1.255	(7.684)
Stock	(2.158)	(3.823)
Current liabilities	(1.473)	5.350
	(2.376)	(6.157)
Net cash from (to) operating activities	(1.753)	(1.790)
Cash flows from investing activities		
Purchase of tangible fixed assets	(13.492)	(9.119)
Proceeds from sale of tangible fixed assets	246	191
Purchase of goodwill	(3.623)	0
Changes in bonds and long-term debtors	158	(504)
Capitalised product development cost	(182)	(195)
Capitalised long-term cost	(119)	(221)
	(17.012)	(9.848)
Cash flows from financing activities		
New long-term liabilities	17.734	4.597
Repayments of long-term liabilities	(1.915)	(639)
Changes in short-term borrowings	5.273	1.160
Dividends paid	(390)	(282)
Changes in own shares	(133)	(573)
	20.569	4.263
Increase (decrease) in cash	1.804	(7.375)
Cash at beginning of year	3.510	12.015
Cash at end of period	5.314	4.640

Marel hf. Interim Consolidated Financial Statements September 30, 2002 Amounts in thousands of EUR

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 209 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 October 2002. Assets and liabilities in other currency than Euro are translated into the currency of Euro at the September-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 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 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

Shares in Eignarhaldsfélag hlutafélaga ehf are stated at purchase price, revalued to the year end 2001. Shares in Stáltak hf are stated at nominal value and shares 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 receivable. 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. Financial income (expenses)

	Long-term liabilities	Other items	Total 1.1-30.9 2002	Total 1.1-30.9 2001
Interest and indexation income	0	84	84	589
Interest and indexation expenses	(1.039)	(646)	(1.685)	(1.210)
Exchange rate differences	983	(814)	169	(1.032)
	(56)	(1.376)	(1.432)	(1.653)
Computed price-level adjustment	0	0	0	(209)
Shares in companies written down	0	(54)	(54)	0
	(56)	(1.430)	(1.486)	(1.862)

2. Product development

	30.9 2002	31.12 2001
Product development 1/1	500	451
Revaluation in the year	0	49
Addition in the year	182	247
Amortisation of the year	(182)	(247)
	500	500

3. Long-term costs

Long-term cost 1/1	281	320
Revaluation in the year	0	36
Addition in the year	119	158
Amortisation of the year	(135)	(233)
	265	281

4. Goodwill

Goodwill 1/1	396	386
Revaluation in the year	2	17
Addition in the year	3.623	0
Amortisation of the year	(153)	(7)
	3.868	396

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5. 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 ...	8	(47)	(66)	(85)	(190)
Additions	8.997	2.381	655	617	12.650
Sales	0	(425)	(1.481)	(120)	(2.026)
Total value 30/9	25.864	10.641	3.348	5.077	44.930
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	(36)	(33)	(48)	(116)
Depreciation	263	752	492	531	2.038
Sales	0	(420)	(1.288)	(62)	(1.770)
Total depreciation 30/9	783	5.049	1.579	3.111	10.522
Net book value 30/9 2002	25.081	5.592	1.769	1.966	34.408

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

Depreciation of tangible fixed assets	2.038
Amortisation of long-term costs	135
Amortisation of goodwill	153
	2.326

6. Shares in other companies

	Ownership	Nominal value in thousands	Book value in thousands
Eignarhaldsfélag hlutafélaga ehf	1,43%	ISK 329	5
Stáltak hf	7,85%	ISK 13.235	155
Arbor SA	50,00%	EUR 168	603
			763

Notes

7. Stock

	30.9 2002	31.12 2001
Raw materials and spare parts	10.011	8.305
Work in progress	2.974	2.214
Ordered work in progress	4.688	5.442
Finished goods	3.839	3.395
	21.512	19.356

8. Trade debtors

	30.9 2002	31.12 2001
Domestic trade debtors	636	176
Foreign trade debtors	13.894	15.513
	14.530	15.689

9. Equity

Share capital

Total share capital of the company amounted to ISK 240 million at the end of September 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		168			
Translation difference of shares in foreign com.			(436)		
Dividend paid					(390)
Loss for the period					(1.125)
Balance 30/9	2.601	11.237	(436)	0	8.336

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10. 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	1
Income tax effects on charged older goodwill	(168)
Income tax on regular operation	(255)
Income tax payable	(145)
	(812)
Deferred income tax assets stated with investments and other long-term debtors	1.722
	910

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

Tangible fixed assets	562
Goodwill	(234)
Taxable loss carried forward	(1.734)
Other items	594
	(812)

11. Long-term liabilities

Liabilities in foreign currency	
Liabilities í USD	10.523
Liabilities í DKK	893
Liabilities í NOK	628
Liabilities í GBP	747
Liabilities í JPY	2.052
Liabilities í SEK	118
Liabilities í CHF	355
Liabilities í EUR	18.077
	33.393
Liabilities, index-linked in ISK	90
Finance lease liabilities	2.813
	36.296
Current maturates	(7.345)
	28.951

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

Period 1/10 2002 - 30/9 2003	7.345
Period 1/10 2003 - 30/9 2004	5.187
Period 1/10 2004 - 30/9 2005	1.803
Period 1/10 2005 - 30/9 2006	4.740
Period 1/10 2006 - 30/9 2007	6.059
Later	11.162
	36.296

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Notes

12. 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 8,8 million are secured with mortgages and pledges against the groups other assets.

13. Commitments

The Group has made some rental agreements for building, motor vehicles and office equipment, now with the remaining balance of EUR 2 million. The amount will be charged 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.