Karjaportti

2002

Managing director's review

Finnish food industry production volumes increased in 2002, albeit slightly more slowly than those for the industrial sector as a whole. Total growth in meat production further accelerated, amounting to five per cent, but consumption increased by only one per cent. Pork production proved the most dynamic in this respect, growing by five per cent, alongside poultry production, at eight per cent. Consumption of poultry increased by around five per cent, while that of pork and beef remained unchanged.

Karjaportti's pork purchases increased by 12 per cent, but beef purchases remained on the previous year's level, and overall meat purchases, including turkey, grew by around seven per cent. The pork trade saw a dramatic upward trend throughout the year.

Karjaportti's turnover was EUR 136 million, approximately two per cent less than in the previous year. Reduced product prices, and reduced sales of beef by-products due to new BSE risk material legislation, had a negative effect on turnover. Russian sales developed favourably in 2002 through our subsidiary, Zao Portti, which has been operating in the Russian market for ten years. Other expenses rose considerably, due to marketing and development investments, technical expenses, and BSE risk material disposal costs. Personnel costs associated with previous restructurings have burdened profits during the last few years, but their percentage of salary costs has already shown a clear decrease.

Total investments amounted to EUR 17.5 million (EUR 8 million in 2001), the most considerable of these being the new food production plant in Mikkeli. In addition, Karjaportti purchased Järvi-Suomen Kalkkuna Oy's businesses, based in Juva, on 1 September 2002.

Co-operative capital remained unchanged, and despite considerable investments and business acquisitions, including rental and redemption contracts with a municipality related to the newly acquired turkey processing business, Karjaportti's liabilities did not increase.

The Mikkeli and Imatra premises were sold in 2002, and the Koria and Jyväskylä premises depreciated to the prices at which they were sold at the beginning of 2003. Capital gains and losses, and depreciations, have been entered under extraordinary items, and thus do not affect the operating profit.

Comparable profit for 2002 developed as planned, but the turkey processing business depressed the result by around EUR 0.5 million. Equity ratio was 23.7 per cent (22.5), profit before extraordinary items EUR 0.96 million (0.58), and net profit EUR 1.56 million (0.68).

The name of the co-operative changed as of 1 January 2003 (new name registered on 31 December 2002) from Osuusteurastamo Karjaportti to Järvi-Suomen Portti Osuuskunta. Major reasons for this included the shift in focus from slaughterhouse-based operations to the production of high-quality, processed food, and Karjaportti's development from a regional supplier into a nation-wide food producer. This change will support Karjaportti's nationally recognised trademarks, JärviSuomen and Portti.

The construction of the new food production plant in Mikkeli proceeded on schedule and on budget. The transfer of production units to Tikkala began in early January, the last of these arriving in early March. Challenges for 2003 include starting up the new plant and improving the profitability of the turkey processing business.

Competition within the meat processing business was intensifying by the beginning of 2003, and we will continue to develop our operational efficiency and customer-drivenness across the board. We introduced measures to improve the shipment of our goods and better meet customer needs during the first quarter, sharpening our competitive edge and enhancing customer satisfaction through reliable deliveries.

Karjaportti's management system is currently undergoing radical development, which will continue during 2003, the company's core processes having been defined in an analysis project. Development teams, with persons designated to take charge of processes, have been established for our core processes: overall management, operational efficiency, product development and information management. The aim is to improve the quality of management over the next few years, through a process organisation model.

I would like to take this opportunity to extend my warmest thanks to all of our partners, suppliers and employees.

PEKKA KAIKKONEN

PROFIT AND LOSS ACCOUNT

1 January – 31 December (EUR 1000)	Corporation		Parent Company	
	2002	2001	**2002**	2001
Turnover	135 888	139 763	135 781	139 749
Increase (+) or decrease (-) in inventory of finished goods and work in progress	–28	–387	–28	–387
Other income from business operations	1 019	1 137	981	1 056
Materials and services				
Materials and supplies				
Purchases during the financial year	74 347	80 843	74 432	80 855
Increase (-) / decrease (+) in inventory	630	-938	630	-938
	74 977	79 905	75 062	79 917
Personnel costs				
Salaries and wages	19 878	19 167	19 833	19 143
Social expenses				
Pensions	3 883	4 000	3 883	3 996
Other social expenses	2 093	2 209	2 081	2 206
	25 854	25 376	25 797	25 345
Depreciation and write downs				
Planned depreciation	3 850	4 950	3 564	4 372
Other operating expenses	29 258	27 490	30 052	28 701
Operating surplus	2 940	2 792	2 259	2 083
Financial Income and Expenses				
Profits from shares in associated companies	–	–	34	37
Profits from other investments				
From others	8	9	8	9
Other interest and financial income				
From group companies	–	–	397	606
From others	167	180	167	180
Interest expenses and other financial expenses				
To others	–2 150	–2 403	–2 150	–2 402
	–1 975	–2 214	–1 544	–1 570
Surplus before extraordinary items	965	578	715	513
Extraordinary items				
Extraordinary income	3 247	–	2 212	–
Extraordinary expenses	–3 227	–	–3 060	–
Surplus/deficit before Appropriations and Taxes	985	578	–133	513
Appropriations				
Increase (-) / decrease (+) in depreciation difference	-	-	178	67
Income tax	–30	–30	–30	–30
Change in deferred tax liability	602	128	-	-
Net surplus for the financial period	1 557	676	15	550

BALANCE SHEET

31 December (EUR 1000)	Corporation		Parent Company	
	2002	2001	**2002**	2001
ASSETS				
Fixed Assets and Other Long-Term Assets				
Intangible Assets				
Intangible rights	1	1	1	1
Goodwill	1 420	–	1 420	–
Other long-term costs	1 148	1 676	1 148	1 673
	2 569	1 677	2 569	1 674
Tangible Assets				
Land and water	2 016	2 490	1 922	2 358
Buildings and structures	16 540	21 771	15 267	17 130
Machinery and equipment	6 190	7 132	6 183	7 139
Advances paid and acquisition in progress	19 049	7 011	19 049	7 011
	43 795	38 404	42 421	33 638
Long-Term Investments				
Holdings in group companies	–	–	524	524
Holdings in associated companies	1 170	1 127	160	228
Other shares and holdings	861	941	858	860
	2 031	2 068	1 542	1 612
Fixed Assets and Other Long-Term Assets Total	48 395	42 149	46 532	36 924
INVENTORIES AND CURRENT ASSETS				
Inventories				
Materials and supplies	3 319	3 752	3 319	3 752
Finished products	2 185	2 230	2 182	2 230
	5 504	5 982	5 501	5 982
Receivables				
Long-term				
Accounts receivable	1	2	1	2
Receivables from group companies	–	–	3 275	6 804
Receivables from associated companies	–	433	–	433
Loans receivable	10	10	10	10
Accrued income and prepaid expenses	32	9	32	9
	43	454	3 318	7 258
Short-term				
Accounts receivable	13 793	17 822	13 763	17 486
Receivables from group companies	–	–	237	998
Other receivables	380	673	379	673
Deferred tax receivables	195	–	–	–
Accrued income and prepaid expenses	321	423	309	420
	14 689	18 918	14 688	19 577
Cash in Hand and at Bank	136	196	75	190
Inventories and Current Assets Total	20 372	25 550	23 582	33 007
Total Assets	68 767	67 699	70 114	69 931

31 December (EUR 1000)	Corporation		Parent Company	
	2002	2001	**2002**	2001
LIABILITIES AND SHAREHOLDERS' EQUITY				
SHAREHOLDERS' EQUITY				
Co-operative capital	7 784	7 813	7 784	7 813
Reserve fund	214	185	214	185
Revaluation reserve	–	37	–	–
Contingency fund	2 190	1 825	9 346	8 893
Surplus from previous years	4 357	4 528	–	–
Surplus for the financial year	1 557	676	15	550
Total Shareholders' Equity	16 102	15 064	17 359	17 441
ACCUMULATED APPROPRIATIONS				
Depreciation Difference	–	–	90	268
LIABILITIES				
Deferred tax liability	–	404	–	–
Long-Term				
Loans from financial institutions	4 745	4 263	4 745	4 263
Pension loans	14 588	16 743	14 588	16 743
Other long-term liabilities	4 531	667	4 531	667
	23 864	21 673	23 864	21 673
Current Liabilities				
Loans from financial institutions	9 758	12 725	9 758	12 725
Pension loans	2 004	2 481	2 004	2 481
Advances received	718	619	718	619
Accounts payable	8 756	7 472	8 756	7 468
Payables to associated companies	54	91	54	91
Other payables	2 614	2 603	2 614	2 600
Accruals	4 897	4 567	4 897	4 565
	28 801	30 558	28 801	30 549
Total Liabilities	52 665	52 635	52 665	52 222
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	68 767	67 699	70 114	69 931

FUNDS STATEMENT

(EUR 1000)	Corporation		Parent Company	
	2002	2001	**2002**	2001
SOURCES OF FUNDS				
Cash-Flow Financing				
Operating surplus	2 940	2 792	2 259	2 083
Adjustment to operating surplus	3 850	4 950	3 564	4 371
Financial yields	175	188	605	832
	6 965	7 930	6 428	7 286
Capital Financing				
Increase in long-term liabilities	6 090	4 230	6 090	4 230
Increase in shareholders' equity	648	746	648	746
	6 738	4 976	6 738	4 976
Change in Working Capital				
Change in liquid assets	4 896	–890	8 945	–219
Change in current assets	478	–550	481	–550
Change in current liabilities	–2 018	1 270	–2 009	1 276
	3 356	–170	7 417	507
	17 059	12 736	20 583	12 769
APPLICATION OF FUNDS				
Distribution of profit				
Financial expenses	2 150	2 402	2 150	2 401
Interests of the co-operative capital	69	–	69	–
Taxes	30	30	30	30
Investments				
Investments in fixed assets	10 113	6 136	14 020	6 184
Repayment of Capital				
Deduction of long-term liabilities	3 637	3 553	3 637	3 539
Deduction of shareholders' equity	1 060	615	677	615
	17 059	12 736	20 583	12 769

NOTES ON THE FINANCIAL STATEMENTS

PRINCIPLES FOR PREPARING THE FINANCIAL STATEMENTS

Principles for preparing the consolidated Financial Statements
The consolidated Financial Statements have been prepared according to the past equity method. The consolidated Financial Statements include all the operational companies, in which the parent co-operative holds a share of more than 50%, either directly or indirectly. Intra-group business operations, internal margins, receivables and liabilities, as well as ownership within the corporation have been eliminated. The difference between the acquisition cost of subsidiaries and the shareholders' equity at the moment of acquisition has been presented as goodwill, which has been written off as straight-line depreciation over a period of ten years. ZAO Portti SPb was included in the consolidated financial statement for the first time.

Affiliated companies
Affiliated companies have been included in the consolidated financial statement following the principle of capital share. The Group's share of the affiliated companies' result for the financial period, in accordance with the Group's holding in them, has been entered under 'Materials and Supplies' for companies supporting the industry, and under 'Rent Income' for real-estate companies.

Deferred tax liability
In the Consolidated Balance sheet, the net depreciation difference, less off the shelf depreciation, is divided into deferred tax liability and shareholders' equity. The change in deferred tax liability is presented in the profit and loss account separately under taxes. In the separate financial statements, the division of depreciation difference is presented in notes to the financial statements.

Valuation principles
Appreciation on fixed and other non-current assets
Fixed assets are entered under the original acquisition costs in the balance sheet, minus planned depreciations, subsidies, and depreciations. Depreciations have been calculated as straight-line depreciations against the assets' usage periods. In addition, the balance sheet value of buildings in non-productive use has been reduced by EUR 1,200,000.00, affecting the financial results. Planned depreciations relating to these buildings came to EUR 154,401.84, the balance sheet value after these entries totalling EUR 1,441,875.58, thought to correspond to their market value. Depreciations are included in the calculation of profits, as incidental expenses.
Planned depreciation is calculated according to the following economic lifetimes: buildings 25–40 years, other long-term investments 4–10 years, machinery and equipment 8–10 years and goodwill value 10 years.
The depreciation period for the production plants in Lappeenranta was changed from 25 years to 40 years, bringing it closer to the estimated financial service life of the premises and better corresponding to the related general accounting practices.
Goodwill value mainly comprises restructuring within our turkey processing business. The acquisition of this business was a strategic measure, which should prove profitable in the long term.

Valuation of Current assets
Current assets have been valued at the direct acquisition cost, including variable costs incurred from acquisition and manufacturing, or at a likely sales price, following the lower cost or market principle.

Appreciation on receivables
Receivables were entered under nominal value, as well as all known credit losses.

Currency-denominated items
Receivables and liabilities in foreign currencies have been entered in the balance sheet at the rates quoted by Nordea Pankki Suomi Oyj on the closing date of the accounts. The same rates were used for the entry on the affiliation of our foreign subsidiary.

Comparability of the financial statements
In relation to the comparability of the financial statements, it should be noted that the figures for the turkey processing business have been included in the financial statement and balance sheet as of 1 September 2002, presented a financial burden of around EUR 500,000. The acquisition cost of the building related to the turkey processing business, based on a binding redemption agreement, has been entered in the balance sheet. Capital gains and capital losses from premises sold during the financial period have been entered under extraordinary items, as have depreciations.

PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

The Board of Directors proposes that of the surplus for 2002, totalling EUR 14,381.79, 5 % be transferred to the reserve fund in accordance with Section 13 of the Articles of Association and the remaining funds be transferred to the contingency fund.

In addition, the Board of Directors proposes that interest of 1 %, be paid from the reserve fund towards the co-operative capital of EUR 7,136,830.53.

Mikkeli, 25. March 2003

Seppo Seppälä

Pekka Halko — Erkki Kolehmainen
Pirjo Lampinen — Antti Pilli-Sihvola
Juha Saikko — Pekka Kaikkonen

AUDITORS' REPORT

To the Members of the Järvi-Suomen Portti Co-operative

We have audited the accounts and the administration of the Järvi-Suomen Portti Co-operative, the name has marked to the business register 31 st of december 2002 (before Karjaportti Co-operative Slaughterhouse) for the 2002 financial year. The financial statements presented by the Board of Directors include, for both the Corporation and the Co-operative, a profit and loss account, a balance sheet and notes to the financial statements, as well as a funds statement. Based on our audits, we express our opinion on these financial statements and the administration of the Co-operative.

We performed our audits in accordance with generally accepted auditing standards. An audit includes assessing the accounting principles used, as well as evaluating the overall financial statement presentation, to obtain reasonable assurance about whether the financial statements are free of material misstatements. The purpose of the audit of administration is to examine that the Supervisory Board and Members of the Board of Directors have legally complied with the rules of the Companies' Act.

In our opinion, the financial statements have been prepared in accordance with generally accepted accounting principles and with other rules and regulations relevant to the preparation of financial statements. The financial statements present fairly, in all material respects, the financial position of the Corporation and the Co-operative, and the results of their operations, in conformity with generally accepted accounting principles. The financial statements of the Co-operative and the corporation can be approved, and the Co-operative's Supervisory Board and Members of the Board of Directors can be discharged from liability for the financial year audited by us. The Board of Directors' proposal for the distribution of profits and paying the inferest fowards the co-operative capital is in accordance with the Co-operatives' Act.

Mikkeli, 25 March 2003

Pentti Savolainen
Authorised Public Accountant

KPMG WIDERI OY AB
Jukka Rajala
Authorised Public Accountant

SUPERVISORY BOARD'S STATEMENT

We have examined the statement of the Board of Directors for 2002, the statement of the examiners appointed by the Supervisory Board, the financial statements and the auditors' report on them. In accordance with the Articles of Association, we now submit the said documents for handling by the representatives, proposing that the financial statements be approved and the proposal by the Board of Directors on distribution of the surplus be accepted.

Next in turn to resign from the Supervisory Board are Pekka Harju, Eero Hetemäki, Satu Koskinen, Kari Nousiainen, Rauno Nuppola, Ville Savelainen and Antti Toivakka.

Mikkeli, 7 April 2003

Kalervo Tulokas

Pekka Harju
Eero Hetemäki
Antero Jaatinen
Timo Kallio
Satu Koskinen

Juha Kuokka
Ilkka Laahanen
Ari Lavikka
Arvo Liukkonen
Pekka Luukkonen

Kari Nousiainen
Rauno Nuppola
Pekka Partanen
Timo Ruhanen
Heikki Sakkara

Ville Savelainen
Antti Toivakka
Kari Vesterinen
Väinö Viljakainen
Hilkka Weijo