

SAGA FURS OYJ

FINANCIAL STATEMENTS BULLETIN FOR THE FINANCIAL YEAR 1 NOVEMBER 2015–31 OCTOBER 2016

Vantaa, 25 January 2017 at 15:00

Saga Furs' loss smaller than anticipated

- Due to a decline in prices and number of pelts sold, Saga Furs Oyj's total value of sales in the financial year 1 November 2015–31 October 2016 decreased by 47 per cent and amounted to EUR 335 million (MEUR 637 in the previous financial year).
- Mink pelt prices fell by more than 40 per cent and fox pelt prices by more than 50 per cent from the previous financial year.
- The company auctioned a total of 10.5 million pelts during the financial year (11.1 million in the previous financial year).
- Consolidated net turnover decreased by 26 per cent from the previous financial year, amounting to EUR 43.0 million (MEUR 58.5).
- Due to the strong decline in prices and a decrease in the number of pelts sold, the consolidated operating loss was EUR -5.9 million (MEUR 4.4 profit), despite a clear reduction in operating expenses.
- Consolidated net financial income was down 41 per cent from the previous financial year, totalling EUR 2.9 million (MEUR 5.0). The decline in the net financial income was due to a decrease in the net interest income and an increase in the net breeder credit losses.
- Consolidated loss before taxes stood at EUR 3.0 million (a profit of MEUR 9.4).
- Consolidated earnings per share were EUR -0.68 (EUR 2.06 in the previous financial year).
- The Board of Directors will propose to the General Meeting, convening on 27 April 2017, that a dividend of EUR 0.20 per share (totalling EUR 720,000) be paid to shareholders from the distributable funds for the financial year 1 November 2015–31 October 2016. In addition, the Board of Directors will propose that the Board be authorised, in accordance with Chapter 13, Section 6 (2) of the Limited Liability Companies Act, to decide upon an additional dividend of not more than EUR 0.30 per share, totalling EUR 1,080,000. The authorisation would be valid until the beginning of the next General Meeting.

Consolidated key figures	5/16–10/16 6 months	11/15– 10/16 12 months	5/15–10/15 6 months	11/14– 10/15 12 months
Value of sales, MEUR	197.4	334.7	277.0	637.3
Number of pelts sold, x 1,000	5,951	10,471	5,779	11,138
Net sales, MEUR	24.7	43.0	25.6	58.5
Operating profit/loss, MEUR	5.1	-5.9	1.1	4.4
Profit/loss before tax, MEUR	6.4	-3.0	2.8	9.4
Earnings per share, EUR	1.95	-0.68	0.65	2.06
Return on equity (ROE), %	8.3%	-2.7%	2.5%	8.0%
Return on investment (ROI), %	3.9%	-0.8%	1.7%	5.4%

Accounting principles

The information in this financial statements bulletin is based on the report of the Board of Directors and the audited financial statements to be published on the company website www.sagafurs.com by 27 January 2017 at 16:00. The financial statements bulletin was prepared in accordance with IAS 34 Interim Financial Reporting.

Business overview

In September 2015, the international price level of mink pelts plummeted as a result of China's economic slowdown, falling share prices and an oversupply of pelts. The same factors also affected the sales of blue fox pelts: only 80 per cent of the pelts on offer at the auction held by the company were sold.

When the price level fell below the cost of production, producers around the world decided to reduce their production. Particularly in China, significant quantities of breeding animals were culled during the autumn of 2015. However, reducing the production did not increase the supply volumes during the sales season 2015–16 in the way predicted at the beginning of the financial year, because the producers were also stockpiling pelts in order to sell them later at a better price. Global mink pelt production has declined more sharply than fox pelt production. Accordingly, it was estimated that the supply and demand of mink pelts would reach an equilibrium more quickly than fox pelts.

A strong decline in the prices in September 2015 and the resulting large losses for the fur trade gave rise to uncertainty in the market, which continued until early 2016. Only a third of the fox pelts offered for sale were sold in the first auction of the sales season 2015–16 held by Saga Furs Oyj in December 2015. In the season's first international mink auctions in January–February 2016, a considerable portion of the pelts was left unsold, while the price level fell to a record low since 2009. The international price level for mink pelts did not stabilise until the end of February when, for the first time, all the mink pelts on offer were sold at an international auction. However, pelt prices were only half of what they had been in the previous sales season.

In Saga Furs' first mink auction in March 2016, all the mink pelts on offer were sold, and prices started to rise slightly. In the fox pelt market, however, uncertainty continued, and only slightly more than half of the pelts offered were sold, while the prices fell clearly below the cost of production. The international price level of fox pelts stabilised in Saga Furs Oyj's June auction, in which the company for the first time was able to sell nearly all the fox pelts on offer. However, as with mink pelts, the fox pelt prices were only half of what they had been in the previous sales season. A positive aspect, on the other hand, was that the low prices aroused interest in the blue fox in other markets, with Europe, North America, Korea and Japan clearly buying more blue fox pelts than before.

However, the blue fox supply in the financial year 2015–16 turned out to be significantly larger than demand, and the market situation did not allow for all of blue fox pelts left over from the June auction to be put on offer in the September auction—the last auction of the financial year—but a portion of the pelts was carried over to the financial year 2016–17. Increased interest, due to the low

price level at the June auction, resulted in a slight increase in the blue fox pelt prices at the September auction.

A strategic fox project was launched in the 2015–16 season with the objective to ensure a demand for fox pelts. At this point, it is a two- or three-year project, which is to be financed by a separate marketing fee levied on the fox and Finnraccoon producers. Saga Furs will be responsible for the planning and implementation of the project, utilising the expertise and networks of the company's various units. The project aims to increase demand for and sales volumes of fox by supporting the existing customers' fox business as well as by increasing the use of fox in the collections of the textile industry. The project also aims to extend the partner network, both in the Asian/Chinese and Western markets.

In late April, Saga Furs Oyj launched Group-wide personnel co-determination negotiations, as the value of sales at the March auction had fallen to less than half of the corresponding auction in the previous season and the company expected the market conditions to remain challenging until the global overproduction of mink and fox pelts comes to an end. The goal was to renew the organisational structure, streamline operations and generate personnel cost savings of approximately one million euros per year throughout the Group, including the international organisation. Pursuant to the negotiations, the targeted savings were accomplished, and the decisions affected the employment or contractual relationship of 17 people throughout the Group. The savings impact will become fully effective in the financial year starting on 1 November 2016. During the financial year under review, savings were gained as most of the Group's Finnish employees decided to trade their holiday bonuses for extra time off and foreign employees decided to take unpaid leave. The past financial year was also the first year to see the retirement of a large number of long-term employees.

During the financial year the Company disposed of loss-making business activities which were not considered necessary in terms of the Company's core business. Fox pelting services were no longer offered in the financial year. Lumi Mink Oy, the breeding animal brokerage firm, discontinued its breeding animal business and decided to convert the farm into a pure quarantine farm for the time being. The brokerage of breeding animals in order to improve the quality of Finnish mink production will continue on this basis.

The collapse of pelt prices in September 2015 radically slowed down payments for and shipments of pelts sold during the sales period 2014–15, but still unpaid. As a result, the company had a record number of pelts in its warehouses already at the beginning of the financial year 2015–16, before the start of a new collection period for pelt production. Sales results from the December and March auctions resulted in an even greater need for storage facilities. During the past financial year the company had to rent additional warehouse space, which substantially increased the company's costs.

Customers who purchased pelts from the company suffered huge losses as the pelt prices plummeted. This made it significantly more difficult to receive payments for the pelts sold in the sales season 2014–15. Throughout the financial year, the trade receivables from previous financial periods were significantly higher than in the previous financial year. As a result of the price decline, a significant long-term buyer-customer of the company went insolvent.

Since the decrease in the value of pelts exceeded the value of the collateral security received from the customer, the company recorded a substantial credit loss. The pelts deposited as collateral are measured at the market price but they have not been realised yet.

Sales collaboration with the North American auction house American Legend will come to an end after the sales season 2016–17. The sales collaboration has increased people's awareness of the company in the North American market. To capitalise on this, the company decided to start collecting mink pelts in North America in the financial year 2016–17. Mink production in North America is of a very high quality. This is expected to widen the company's product range and improve its competitiveness in relation to other auction companies.

The Company's communication and producer service strategies were updated during the financial year. The company aims to strengthen its leading position as a responsible actor based on farm certification and traceability of pelts, among other things. During the past financial year the company was involved in negotiations concerning the introduction of the WelFur animal welfare system in all major European fur-producing countries. The WelFur system has been developed in collaboration with seven European universities to serve as a scientific instrument measuring the well-being of fur animals. The WelFur system will be part of Saga's farm certification scheme based on Finnish standards. By the financial year 2019–20, after a transitional period, the company aims to carry out joint grading only for pelts originating from certified fur farms.

In November, the company entered into strategic partnership with DHL Global Forwarding with the aim of developing and improving logistic services offered to Chinese customers in particular. In addition, the partnership enables short-term storage of pelts in China in optimal conditions. Co-operation has started well and has received positive feedback from customers.

Sales during the financial year 1 November 2015–31 October 2016

Financial half-year 1 May–31 October 2016

Saga Furs Oyj arranged a third auction in the financial year in co-operation with the North American auction house American Legend on 8–17 June 2016. The auction was mainly driven by Chinese purchases, and the value of sales grew to nearly EUR 126 million (MEUR 220 at a corresponding auction in the previous year). Over 600 buyers attended the auction, and a total of 2.9 million mink pelts (3.3 million), 830,000 fox pelts (650,000), 29,000 Finnraccoon pelts (31,000) and 24,000 Karakul lamb pelts (34,000) were sold at the auction.

The final auction of the financial year began on 18 September and ended on 23 September. A total of 1.3 million mink pelts (1.1 million), 730,000 fox pelts (460,000), 100,000 Karakul lamb pelts (51,000) and 32,000 Finnraccoon pelts (35,000) were sold at the auction. The offering at the auction differed from the other auctions of the financial year, in that a substantial portion of the selection consisted of lower-quality pelts. A total of nearly 500 buyers from all market areas attended the auction. The price level of fox pelts increased slightly at the auction, and the total value of sales came to EUR 69 million (EUR 56 million in September 2015).

Financial year 1 November 2015–31 October 2016

Saga Furs Oyj held a total of four auctions during the financial year, selling 7.9 million mink pelts (8.6 million in the previous financial year). Of these, 96 per cent were in the Saga collections. The company sold 340,000 East European mink pelts as separate assortments (420,000). A total of 2.2 million fox pelts (2.1 million), 280,000 Karakul lamb pelts from Afghanistan (280,000) and 150,000 Finnraccoon pelts (130,000) were sold.

The total number of pelts sold during the financial year decreased by 6 per cent from the previous financial year and amounted to 10.5 million pelts (11.1 million). Due to the decline in prices and number of pelts sold, the value of sales decreased by 47 per cent from the previous financial year and amounted to EUR 335 million (EUR 637 million).

The value of sales by auction was divided as follows:

Auction	Sales 1,000 pelts 2015–2016	Value EUR 1,000 2015–2016	Sales 1,000 pelts 2014–2015	Value EUR 1,000 2014–2015	Sales 1,000 pelts 2013–2014	Value EUR 1,000 2013–2014
December	229	12,433	795	49,480	494	33,779
March	4,273	123,971	4,540	307,985	3,959	238,071
June	3,796	125,819	4,058	219,642	4,109	156,676
September	2,122	69,104	1,688	55,581	1,224	75,874
Warehouse sales in the financial year	50	3,413	57	4,662	12	1,017
Total	10,471	334,740	11,138	637,349	9,797	505,418

Net turnover

Financial half-year 1 May–31 October 2016

Due to the fall in the pelt price level, the value of the Group's sales in the latter half of the financial year decreased by 29 per cent from the previous corresponding half-year period, to EUR 197.4 million. Consolidated net turnover decreased by 4 per cent, amounting to EUR 24.7 million (MEUR 25.6).

Financial year 1 November 2015–31 October 2016

Consolidated net turnover decreased by 26 per cent from the previous financial year, amounting to EUR 43.0 million (MEUR 58.5). The bulk of net turnover, 88 per cent (89%), consisted of commission fees collected for pelt trading. The commission fees from producers accounted for 32 per cent (23%) and the commission fees from buyers for 53 per cent (65%) of the consolidated net turnover. The remainder was generated among other things from sales of pelting services and breeding animals to producers, as well as restaurant and congress service sales. The share of commission fees collected from Finnish customers, both producers and buyers, was 21 per cent (12%) and the share of commission fees collected from international customers was 64 per cent (76%). Of the net turnover, 9 per cent was generated in the first quarter, 33 per cent in

the second quarter, 34 per cent in the third quarter and 23 per cent in the last quarter of the financial year.

Financial performance

Financial half-year 1 May—31 October 2016

In the latter half of the financial year, other operating income amounted to EUR 500,000 (EUR 290,000). Operating expenses decreased by 19 per cent compared to the previous corresponding half-year period, totalling EUR 20.1 million (EUR 24.8 million). The consolidated operating profit increased to EUR 5.1 million (1.1 million). The net financial income decreased by 16 per cent compared to the previous corresponding half-year period, totalling EUR 1.4 million (1.6 million). Profit before taxes for the latter half of the financial year stood at EUR 6.4 million (2.8 million). Earnings per share in the latter half of the financial year was EUR 1.95 (0.65), and the return on equity was 8.3% (2.5%).

Financial year 1 November 2015–31 October 2016

Other operating income was EUR 1.2 million which includes EUR 560,000 of profits from sales of investments that were available for sale during the financial year, and EUR 330,000 of recovered buyer credit losses (EUR 500,000 in the previous financial year).

Operating expenses decreased by 9 per cent year-on-year to EUR 50.1 million (55.0 million). Of the expenses, 30 per cent were generated in the first quarter of the financial year, 30 per cent in the second quarter, 21 per cent in the third quarter and 19 per cent in the last quarter. Operating expenses include credit losses of EUR 1.9 million recorded for receivables from buyers (MEUR 1.6). Most of the credit losses were the result of a major long-time buyer-customer becoming insolvent due to the decline in prices. The decrease in the value of pelts exceeded the value of the collateral security received from the customer. The pelts deposited as collateral are measured at market price but they have not been realised yet. Personnel expenses account for 39 per cent and other operating expenses for 44 per cent of the operating expenses. Personnel expenses were down 7 per cent year-on-year, totalling EUR 19.8 million (MEUR 21.4). In the financial year, the targets of the annual bonus scheme for the personnel were not reached and no bonuses will be paid. The average number of personnel did not change from the previous financial year. The number of mink pelts received and sorted during the financial year decreased by over 10 per cent from the previous year, while the number of fox pelts remained the same. Expenses related to international lobbying through IFF and Fur Europe declined by half from the previous year, totalling EUR 1.5 million (MEUR 2.9). Due to the strong decline in prices and decreased number of pelts sold, the consolidated operating loss was EUR -5.9 million (MEUR 4.4 profit), despite a clear reduction in operating expenses.

Consolidated net financial income was down 41 per cent from the previous financial year, totalling EUR 2.9 million (MEUR 5.0). The decline in the net financial income was due to a decrease in the net interest income and an increase in the net breeder credit losses. Net interest income was reduced primarily by the fact that the sales receivables from the previous financial years were mainly interest-free, unlike the previous financial year. Consolidated loss before taxes stood at EUR 3.0 million (a profit of MEUR 9.4).

Return on equity for the financial year was -2.7 per cent (8.0%), and earnings per share were EUR -0.68 (EUR 2.06). Equity per share was EUR 24.59 (EUR 26.38). The Group's equity ratio was 44.8 per cent (44.5%).

Capital expenditure

Consolidated gross capital expenditure during the financial period totalled EUR 2.9 million (MEUR 6.6), accounting for 7 per cent (11%) of net turnover. Of the capital expenditure, 50 per cent was spent on the parent company's intangible assets, 43 per cent on the parent company's tangible assets, and seven per cent on the subsidiaries' tangible assets. The largest investments were various web applications, grading automation and grading equipment.

Personnel

During the financial year, the company employed 383 people on average. The majority of the personnel hold different jobs relating to the handling of fur pelts.

The numbers of employees in the parent company and in the Group were as follows:

	Parent company			Group		
	2015– 2016	2014– 2015	2013– 2014	2015– 2016	2014– 2015	2013– 2014
Average number of personnel	293	289	265	383	382	353
- permanent staff	125	121	118	169	164	158
- fixed-term staff	168	168	147	214	218	195
Number of staff at the end of financial year on 31 October	123	129	133	179	193	215

Share trade and share performance

The company's Series C shares are publicly quoted. Saga Furs Oyj is a Small Cap company belonging to the Industrial and Consumer services sector of NASDAQ OMX Helsinki. The value of shares traded during the financial year totalled EUR 7.4 million and the volume was 470,000 shares, representing 18 per cent of the company's Series C shares. The highest closing price of the share during the financial year was EUR 19.24 and the lowest closing price EUR 13.47, with the average price being EUR 15.69. At the end of the financial year, the Series C share closed at EUR 13.61, while a year earlier, it closed at EUR 18.19. The market capitalisation totalled EUR 49.0 million (MEUR 65.5) at the end of the financial year, on 31 October.

General Meeting

The General Meeting of Saga Furs Oyj held on 21 April 2016 approved the financial statements for the financial year ending on 31 October 2015 and decided to distribute a dividend of EUR 1.00/share, totalling EUR 3,600,000, and

to transfer EUR 645,000 to the counter-cyclical budgetary fund. The dividend was paid out on 2 May 2016.

The General Meeting held on 21 April 2016 decided that the number of the members of the Board of Directors is eight. Fur breeders **Kenneth Ingman**, **Lasse Joensuu**, **Jorma Kauppila**, **Anders Kulp**, **Pentti Lipsanen**, **Rainer Sjöholm** and **Hannu Sillanpää** as well as **Virve Kuusela**, former Managing Director of DHL, Kuwait, were elected to the Board of Directors for a term to run until the next General Meeting. Following the General Meeting, Jorma Kauppila was elected Chair and Kenneth Ingman Deputy Chair of the Board of Directors at the first meeting of the Board. The General Meeting decided that **Ernst & Young Oy** will continue as the company's auditor, with Authorised Public Accountant **Johanna Winqvist-Ilkka** as the main auditor.

Business risks and uncertainties

The risks associated with Saga Furs Oyj's business include business risks, property and damage risks, financial risks and operational risks. As the operating environment changes, the risks associated with strategic choices increase. The company aims to manage and limit the possible effects of risks. If, however, these risks were realised, they could considerably impair the business, financial position and financial performance of Saga Furs Oyj.

The most significant business risks are described here and the various financial risks under section 25 in the Notes to the Consolidated Financial Statements.

Risks related to supply and demand

Pelt prices can fluctuate strongly according to the financial cycle. As fur farming follows an annual cycle, Saga Furs Oyj needs at least six months to adapt to the price changes. These elements involve considerable risks with respect to the company's financial performance. The bulk of fur pelts graded during a financial year are offered for sale at the auctions held in March and June, when the demand is highest. At this point, most of the costs have already been incurred. If demand is low, part of the pelts graded during the financial year may be carried over to be sold in the next financial year. Conversely, when the demand increases, some of the pelts sold during the financial year may have been graded in the previous financial year. Most of the expenses incurred from acquisition, logistics and grading encumber the profit in the financial year during which the pelts are graded, whereas the sales proceeds are allocated to the financial year during which the pelts are sold.

A decrease in the demand for furs is clearly a risk for the company. Successful sales of the present-day large global production requires that the fashion industry actively uses fur as a raw material, consumers want fur garments and trimmings and the retail structure allows people to buy them. The company is engaged in active marketing and product development in order to influence the choices of the international world of fashion. The goal is to modernise fur as a material and find new uses for fur in order to establish its position in the world of fashion and as a raw material for the fashion industry. To maintain a demand for fur among consumers in the main markets requires that fur remains at all times visible in the world of fashion and, above all, the purchasing power of consumers increases and they remain confident about the future. In China, the company's most important market, large investments in the retail business have enabled

the fur trade to grow. Should the retail business lose interest in the fur trade, demand for furs would decrease considerably.

The origin of pelts, responsible production methods and traceability of products have recently gained importance in the Western fashion industry. Western consumers are calling for complete transparency in the fashion industry, which is why the industry, in turn, requires suppliers to increasingly provide traceability all the way to producers of individual pelts. Certification of production as an indicator of responsibility is of major importance. If the expectations of the fashion industry cannot be met, a significant risk exists that the use of fur in the fashion industry will decrease.

Purchases by China- and Hong Kong-based customers continue to dominate the global fur trade. The fur trade is in a transition period, with the role of Western intermediaries diminishing and the Chinese increasingly doing the buying directly by themselves. A generational change and the growing importance of China has contributed to this. The challenges are that the new Chinese brokers and buyers do not have the same amounts of capital behind them as the Western buyers who are leaving the industry, and the fact that it is much more difficult to determine the Chinese buyers' creditworthiness. We do not yet have much experience of Chinese buyers' payment behaviour in respect of major price decreases, but based on the experiences that we do have, the cultural differences are large.

Fur pelt production in the world grew significantly in the first half of this decade. The growth in production was particularly rapid in China, where the government favours domestic production by imposing high import duties. As a consequence, China became the world's largest producer of mink and fox pelts. The slowing down of the economic growth in China and the Chinese government's strong anti-corruption campaign have contributed to the uncertainty felt by Chinese consumers and reduced the demand for luxury goods. Increased demand in other market areas has not been enough to compensate for the decrease in demand in China. It is estimated that as a result of the price trend in the years 2014–2016, the Chinese mink production has declined markedly, and Denmark is once more the world's largest producer of mink pelts. The decline in fox pelt production only started in 2016. It is unclear whether we have already reached a balance between the demand for and the supply of fur pelts in the world.

The concentration of pelt production to larger units has led to higher individual financing risks for Saga Furs Oyj. A prolonged period of strong growth deteriorated some units' tolerance of economic fluctuations. This has increased the risks related to advance financing for both breeding and pelts. Profitability in the past sales season was weak and, as a result, a number of units are already facing liquidity problems. The full impact of declining feed costs will be felt only in 2017, because the 2016 feed raw material contracts were negotiated before the 2016 price decline. If the cost of European fur production were to rise, e.g. if significant additional investments were required as a result of changes in legislation, this could significantly reduce the fur production in the current market situation in Western Europe and thus also reduce the fur volumes traded by Saga Furs.

Saga Furs is under pressure to improve its cost competitiveness. When automating its operations, the company needs to invest in the grading of both mink and fox pelts, while its rivals only need to invest in mink pelt grading. The

average size of the company's producer-customers and the company's domestic market in respect of mink pelts are clearly smaller than those of its rivals. The company must pay even greater attention to the cost per pelt sold, so as not to lose cost competitiveness.

The dramatic decline in pelt prices which started at the international auctions in September 2015 incurred great losses for the global fur trade for the second time in a short period (the previous time was two sales seasons earlier), increasing the company's financial risks in respect of the financing of buyers. It becomes harder for buyer-customers to obtain financing for their operations, and different types of financial arrangements are required for an even larger share of the company's sales.

Changes in exchange rates

The weakening of the US dollar and other currencies tied to it poses a risk to the company's business. Most of the pelts sold by Saga Furs Oyj are exported outside the euro zone, and the world market price for pelts is determined in USD even though the company's currency of sale is the euro. On the other hand, the strengthening of the US dollar considerably improves the company's business outlook. The management of currency risks is described in detail in the Notes to the consolidated financial statements.

Image risks and political risks

The image risks and political risks associated with furs are significant for the company, because it would be impossible to stay in business if the breeding of fur animals and trading in pelts were not allowed.

Risks associated with fur farming

The risks associated with the justification of fur farming remain considerable. The majority of political decision-makers continue to be in favour of fur farming in countries with the highest production volumes, such as Finland and Denmark. In Norway, after deliberating the matter, the Ministry ended up proposing a tightening of legislation related to fur farming rather than a total ban, and the Norwegian Parliament approved the proposal in January 2017. In the Netherlands, an appeals court decided in November 2015 to uphold the mink breeding ban imposed by the Dutch Parliament. The Dutch fur producers' association appealed the decision to the Supreme Court. In December 2016, the Supreme Court upheld the appeals court's decision. Consequently, the ban will enter into force in 2024. However, the Dutch fur producers can appeal to the European Court of Human Rights arguing that the banning of an entire industry without financial compensation should not be allowed. In Poland, the initiative of banning fox and Finnraccoon fur farming has not progressed.

The image of fur farming is of paramount importance to the company. The activities of animal rights organisations aim to create a negative image of fur farming, and social media, which is outside the reach of source criticism, provides an even greater opportunity for this. On the level of impression, the often one-sided image conveyed through social media, for example, affects European decision-makers who are not familiar with the industry. The challenge is to ensure that policy-makers have access to the correct information on which to base their decisions.

Animal welfare is one of the central values guiding Saga Furs Oyj's operations. For several years, Fur Europe, a lobbying organisation for the fur industry in Europe, together with national associations and universities that carry out fur animal research, have been building the WelFur protocol that is intended to be adopted in all European fur-producing countries with the aim of improving the well-being of fur animals. The company has signed an agreement with Fur Europe to the effect that the company's producer customers in the EU and EEA should be audited by an accredited auditing body chosen by Fur Europe during 2017–2019, so that the company could offer in its joint-graded selections only WelFur-certified pelts from 2020 onwards. Improvements in the well-being of fur animals will also contribute to the long-term viability of the fur trade.

The Finnish farm certification system applied by Saga Furs in Finland and also elsewhere in Europe is an internationally acknowledged quality and management system. The Finnish Fur Breeders' Association (ProFur) and Saga Furs not only rely on control by the authorities, but actively work to ensure animal welfare and environmental protection in fur production. Self-monitoring and certification systems are continuously improved. The reliability of farm certification is verified by a third party, the internationally recognised DNV GL. From the sales season 2014–2015 onwards, the company receives Finnraccoon and fox pelts from certified farms only. The company aims to develop the farm certification system jointly with ProFur in order to integrate WelFur in it.

Risks associated with the fur pelt trade

An increasing number of fashion companies want to ensure that the fur pelts used in their collections are solely from certified farms. These companies see fur pelts as an integral part of the fashion industry, but at the same time they want to promote animal welfare and ensure that the use of fur pelts is ethical. A prerequisite for this is a credible farm certification programme with sanctions.

The markets for fur pelts are largely located in areas where trading habits, administration and regulations are very different from the EU and the United States. In particular, this applies to China and Russia, where changes are also difficult to predict. Saga Furs Oyj aims to reduce trade-related restrictions and risks in co-operation with IFF, amongst others.

Main events after the end of the financial year

The first auction in the financial year 2016-2017 was held on 20–21 December 2016. Auctioned items included 330,000 fox pelts (330,000), 31,000 Finnraccoon pelts (31,000) and 220,000 (280,000) Karakul lamb pelts from Afghanistan. Contrary to previous financial years, the fox pelts offered for sale in the auction were mainly unsold pelts that had been graded in the previous financial year. Like the previous financial year, mink pelts will not be offered until the March auction. Restored confidence in the fox pelt market was reflected in the results of the auction. All fox and Finnraccoon pelts offered at the auction were sold. The prices of the most important pelt type, the blue fox pelt, increased by 30 per cent compared to the September auction. Approximately 300 buyers from all major market areas attended the auction. The distribution of purchases over a wide range of market areas showed that the certified Finnish fox pelt is in strong demand across the world's fashion and textile collections.

The total value of sales at the auction came to EUR 33 million (EUR 12 million in December 2015).

Estimate of business development in the current financial year

In addition to the December 2016 auction, Saga Furs Oyj will arrange auctions on 5–15 March, 6–16 June and 17–22 September 2017. The company intends to offer 8.2 million mink pelts, 2.3 million fox pelts, 150,000 Finnraccoon pelts and 250,000 Karakul lamb pelts in the sales season's auctions. The March and June auctions will be arranged in co-operation with the North American auction houses American Legend and Fur Harvesters Auction Inc.

In China, the manufacture and retail of fur garments have continued to grow, and new players have joined the industry. This has increased competition, and fur garments have been sold at a very low margin. However, the market is polarised, and fashionable garments are selling fairly well. The downturn in China's economic growth rate was also reflected in the autumn retail season. As a whole, however, the garment retail volume is expected to reach the previous sales season's level. The mink pelt price level achieved in the September auctions was never fully passed on to garment prices. This was also clearly manifest in the first international mink auction of the season 2016–17, where the prices returned close to the price level of the June 2016 auctions.

Russia's economic situation has stabilised, oil prices have risen and, as a result, the ruble has strengthened by a fifth during 2016. The return of consumer confidence and the demand that had been bottled up for two years have been reflected in the retail business which, due to the cold weather, started in the autumn one month earlier than the year before. Both affordable and more expensive garments have been selling well. The manufacture of fur garments in Russia is expected to grow as well.

Despite the savings achieved, e.g. through statutory co-determination negotiations, the company's cost per pelt is expected to rise slightly from the previous financial year as a result of the decrease in fox production. The increased storage of unpaid pelts from previous financial years also affects the costs. The rising interest rates of the US dollar are expected to have a negative impact on the company's net financial income, as they probably cannot be fully passed on to the interest rate paid by the customers. Making estimates of the sales of future auctions on the basis of auctions held so far by Saga or other auction houses during the sales season 2016-17 is premature. The profit/loss for the financial year will depend on the sales results of the upcoming auctions, which, in this challenging market situation, are again impossible to forecast.

The Board of Directors' proposal for the distribution of profit

On 31 October 2016, the parent company's distributable funds were as follows:

- retained earnings	57,472,371.60
- profit for the financial year	-2,650,499.66
- to be transferred to the counter-cyclical budgetary fund in accordance with the Articles of Association	0.00
	<hr/>
	54,821,871.94

The Board of Directors will propose to the General Meeting that a dividend of EUR 0.20 per share (totalling EUR 720,000) be paid to shareholders from the distributable funds for the financial period 1 November 2015–31 October 2016. In addition, the Board of Directors will propose that the Board be authorised, in accordance with Chapter 13, Section 6 (2) of the Limited Liability Companies Act, to decide upon an additional dividend of not more than EUR 0.30 per share, totalling EUR 1,080,000. The authorisation would be valid until the beginning of the next General Meeting.

The suggested dividend pay-out date is 9 May 2017.

Consolidated statement of financial position, IFRS

EUR 1.000

ASSETS	31 Oct 2016	31 Oct 2015
Non-current assets		
Property, plant and equipment	37 067	39 479
Intangible assets	4 659	4 224
Available-for-sale investments	352	898
Long-term receivables	13 819	11 328
Non-current assets, total	<u>55 897</u>	55 929
Current assets		
Inventories	1 951	2 701
Interest-bearing receivables from buyers	43 247	43 669
Interest-bearing receivables from fur breeders	65 353	84 047
Non-interest-bearing receivables	38 633	34 485
Tax assets based on taxable income for the period	59	702
Cash and cash equivalents	11 815	6 249
Current assets, total	<u>161 058</u>	171 855
Total assets	<u><u>216 955</u></u>	<u><u>227 783</u></u>
 SHAREHOLDERS' EQUITY AND LIABILITIES		
	31 Oct 2016	31 Oct 2015
Equity attributable to parent company's shareholders		
Share capital	7 200	7 200
Share premium account	254	254
Other funds	20 385	19 740
Translation difference	61	54
Fair value reserve	0	426
Retained earnings	60 616	67 293
Shareholders' equity, total	<u>88 516</u>	94 968
Provisions for liabilities and charges	0	105
Non-current liabilities		
Deferred tax liabilities	1 677	2 449
Current liabilities		
Interest-bearing liabilities	96 044	104 447
Trade and other payables	30 638	25 686
Deferred taxes based on the taxable income	81	128
Current liabilities, total	<u>126 763</u>	130 261
Total liabilities	<u>128 440</u>	132 711
Total shareholders' equity and liabilities	<u><u>216 955</u></u>	<u><u>227 783</u></u>

Consolidated statement of comprehensive income

EUR 1.000	1 May 2016- 31 Oct 2016 6 mo	1 Nov 2015- 31 Oct 2016 12 mo	1 May 2015- 31 Oct 2015 6 mo	1 Nov 2014- 31 Oct 2015 12 mo
Continuous operations				
Net turnover	24 687	43 008	25 615	58 508
Other operating income	504	1 241	293	919
Materials and supplies	-1 806	-3 530	-1 930	-4 447
Employee benefits	-6 897	-19 794	-8 465	-21 351
Depreciation and impairment loss	-2 337	-4 707	-2 308	-4 525
Other operating expenses	-9 081	-22 098	-12 069	-24 672
Operating profit/loss	5 071	-5 880	1 135	4 433
Financial income	2 363	4 955	2 429	6 444
Financial expenses	-986	-2 036	-780	-1 481
Profit/loss before tax	6 448	-2 960	2 784	9 395
Income tax	581	522	-459	-1 995
Net profit/loss for the reporting period	7 029	-2 438	2 325	7 400
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Available-for-sale investments	0	-533	116	206
Translation differences	7	13	0	-9
Income tax effect	0	107	-23	-41
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	7	-414	93	156
Total comprehensive income/expense	7 037	-2 852	2 418	7 556
Earnings per share, EUR, basic (EUR) *)	1,95	-0,68	0,65	2,06
*) There are no factors diluting the key performance indicator				

Consolidated statement of cash flows

EUR 1.000	1.11.2015- 31.10.2016 12 mo	1.11.2014- 31.10.2015 12 mo
<i>Cash flow from operating activities</i>		
Payments received for selling on commission	334 683	629 178
Cash received from other operating income	352	338
Cash paid for other operating expenses	-324 169	-622 704
Cash flow from operating activities before financial items and taxes	10 866	6 812
Interests, paid	-1 419	-954
Other financial expenses	-652	-454
Interest, received	5 540	5 042
Other financial income	186	564
Dividend income	0	22
Direct taxes paid	452	-2 841
Net cash flow from operating activities (A)	14 972	8 191
<i>Cash flow from investment activities</i>		
Investments in tangible and intangible assets	-2 894	-6 584
Proceeds from sale of tangible and intangible assets	52	171
Investments in other assets	-25	-8
Proceeds from other investments	584	0
Net cash flow from investments activities (B)	-2 282	-6 421
<i>Cash flow from financing activities</i>		
Proceeds from short-term borrowings	0	2 896
Current loans repaid	-3 593	0
Dividends paid	-3 531	-2 476
Net cash flow from financing activities (C)	-7 124	420
Change in cash flows (A+B+C) increase (+) / decrease (-)	5 566	2 190
Cash and cash equivalents, 31 Oct	11 815	6 249
./. Cash and cash equivalents, 1 Nov	6 249	4 059
Net change in cash and cash equivalents	5 566	2 190

Consolidated statement of changes in shareholders' equity 1.11.2014-31.10.2015

	Share capital	Share premium account	Other funds	Translation difference	Fair value reserve	Retained earnings	Before minority interests	Minority interests	Total
Shareholders' equity, 1 Nov 2014	7 200	254	19 590	60	262	62 565	89 931	0	89 931
Result for the reporting period						7 400	7 400		7 400
Other comprehensive income/expense				-6	165	-3	157		157
Dividend						-2 520	-2 520		-2 520
Transfer to counter-cyclical budgetary fund			150			-150	0		0
Shareholders' equity, 31 Oct 2015	7 200	254	19 740	54	426	67 292	94 968	0	94 968

Consolidated statement of changes in shareholders' equity 1.11.2015-31.10.2016

Shareholders' equity, 1 Nov 2015	7 200	254	19 740	54	426	67 292	94 968	0	94 968
Result for the reporting period						-2 438	-2 438		-2 438
Other comprehensive income/expense				7	-426	6	-414		-414
Dividend						-3 600	-3 600		-3 600
Transfer to counter-cyclical budgetary fund			645			-645	0		0
Shareholders' equity, 31 Oct 2016	7 200	254	20 385	61	0	60 616	88 516	0	88 516

Key performance indicators

	2015/2016	2014/2015
	12 mo	12 mo
Total sales, EUR 1,000	334 740	637 349
Net turnover, EUR 1,000	43 008	58 508
Operating profit/loss, EUR 1,000	-5 880	4 433
% of net turnover	-13,7%	7,6 %
Profit before taxes, EUR 1,000	-2 960	9 395
% of net turnover	-6,9 %	16,1 %
Earnings per share, EUR	-0,68	2,06
Equity per share, EUR	24,59	26,38
Return on equity (ROE)-%	-2,7 %	8,0 %
Return on investment (ROI)-%	-0,8 %	5,4 %
Equity-to-assets ratio, %	44,8 %	44,5 %
Gearing	0,95	1,03
Gross capital expenditure, EUR 1,000	2 918	6 592
% of net turnover	6,8 %	11,3 %
Average number of personnel	383	382

Principles for calculating key performance indicators:

Return on equity (ROE)-%	= Profit/Loss for the financial period x 100 / shareholders' equity *)
Return on investment (ROI)-%	= (Profit/Loss before taxes + interests and other financial costs - credit losses) x 100 / (balance sheet total - non-interest-bearing short-term liabilities) *)
Equity-to-assets ratio, %	= Shareholders' equity x 100 / (balance sheet total - advances received)
Gearing	= (Interest-bearing borrowed capital - cash and securities and financial securities) / shareholders' equity
Earnings per share, EUR	= Profit/Loss for the financial period / adjusted average number of shares
Equity per share, EUR	= Shareholders' equity / adjusted number of shares on the balance sheet date

*) The divisor applied to the key performance indicators is calculated as the average of the numbers in the balance sheet of the financial period and of the previous financial period.

Commitments and contingencies

EUR 1.000

31 Oct 2016 31 Oct 2015

Mortgages given and receivables pledged in security for debt

Loans from financial institutions	65 100	68 443
Mortgages on property	54 071	54 071
Mortgages on company assets	2 691	2 691
Pledges given	791	791

Derivative contracts

Forward exchange agreements	25 604	43 916
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Forward exchange agreements are not classified as hedging instruments because the Group does not apply hedge accounting.

The position of the parent company's forward exchange agreements which were effective at the end of the financial year was - 1.340.655 euros.

Property investments

The group is obliged to check the VAT deductions made on real estate investments if taxable use of the real estate decreases during the inspection period. The maximum amount of liability is EUR 2.368.000 and the last year of inspection is 2025.

Related Party Transactions

EUR 1.000	2015/2016 12 mo	2014/2015 12 mo
Transactions with related parties:		
<i>Net turnover</i>		
- other related party	379	505
<i>Other operating income</i>		
- parent company	48	48
<i>Materials and supplies</i>		
- other related party	-5	0
<i>Other operating expenses</i>		
- parent company	-17	-17
<i>Financial income</i>		
- other related party	49	45
<i>Financial expenses</i>		
- parent company	-6	-20
- other related party	-4	-4
<i>Related party receivables</i>		
- other related party	467	1 185
<i>Related party liabilities</i>		
- parent company	-2 269	-1 992
- other related party	-1 424	-1 850
	2015/2016 12 mo	2014/2015 12 mo
Management compensation		
Remuneration and other short-term employee benefits	1 580	1 376

Management consists of the Board of Directors, the Managing Director, the Managing Director's Deputy and the rest of the group's Management Group.

Vantaa, 25 January 2017

SAGA FURS OYJ
Board of Directors