**SAGA FURS OYJ**

# FINANCIAL STATEMENTS BULLETIN FOR THE FINANCIAL YEAR 1 NOVEMBER 2016–31 OCTOBER 2017

Vantaa, 25 January 2018

## Saga Furs Oyj's (plc) result shows clear profit

- Saga Furs Oyj's total sales in the financial year 1 November 2016–31 October 2017 increased by 31 per cent and amounted to EUR 437 million (2015/2016: MEUR 335) due to an increase in price levels.
- The prices of fox skins increased by 38 per cent and the prices of mink skins by 25 per cent compared to the previous financial year.
- The company auctioned a total of 10.2 million skins during the financial year (10.5 million).
- Net turnover increased by 23 per cent, amounting to EUR 52.7 million (MEUR 43.0).
- Due to the increase in the price levels, the operating profit improved by EUR 11.7 million and amounted to EUR 5.8 million (loss of MEUR 5.9).
- Net financial income increased by 17 per cent, totalling EUR 3.4 million (MEUR 2.9). Unpaid dividends associated with shares transferred to the company from a joint account in the book-entry system, totalling EUR 450,000, were recognised as revenue, thereby increasing the net financial income.
- Result before taxes increased by EUR 12.1 million and amounted to EUR 9.2 million (loss of MEUR 3.0).
- Consolidated earnings per share were EUR 2.05 (EUR -0.68).
- The Board of Directors proposes to the Annual General Meeting, convening on 19 April 2018, that a dividend of EUR 1.00 per share be paid to shareholders from the distributable funds for the financial year 1 November 2016–31 October 2017 and that EUR 720,000 be transferred to the counter-cyclical budgetary fund.

| **Consolidated key figures** | **5/17–10/17 6 mo** | **11/16–10/17 12 mo** | 5/16–10/16 6 mo | 11/15–10/16 12 mo |
|---|---|---|---|---|
| Total sales, MEUR | **212.7** | **437.1** | 197.4 | 334.7 |
| Total amount of skins sold, 1,000 pcs | **5,578** | **10,178** | 5,951 | 10,471 |
| Net turnover, MEUR | **25.0** | **52.7** | 24.7 | 43.0 |
| Operating result, MEUR | **4.4** | **5.8** | 5.1 | -5.9 |
| Result before taxes, MEUR | **5.7** | **9.2** | 6.4 | -3.0 |
| Earnings per share, EUR | **1.29** | **2.05** | 1.95 | -0.68 |
| Return on equity, (ROE) % | **5.0** | **8.0** | 8.3 | -2.7 |
| Return on investment, (ROI) % | **4.2** | **6.4** | 3.9 | -0.8 |

## Accounting principles

The information in this financial statements bulletin is based on the report of the Board of Directors and the audited financial statements that was published in Finnish on the company website www.sagafurs.com on 29 January 2018 at 15.45. The financial statements bulletin was prepared in accordance with IAS 34 Interim Financial Reporting.

The standards or their amendments listed below have been published, but they are not yet in effect and the Group has not applied these regulations before their mandatory effective date:

*IFRS 9 Financial Instruments* (the amendment will be effective for financial years beginning on or after 1 January 2018). The IFRS 9 standard will replace the current IAS 39 standard in full. In accordance with IFRS 9, the future classification of a debt instrument included in financial assets will be based on the nature of the contractual cash flows of the instrument and the business model to which the instrument belongs. The standard presents a new impairment accounting practice that is based on determining expected credit losses. In the future, an entity must recognise an expected credit loss, the amount of which is influenced by the probability of a loss-making event during the period under review, covering either the following 12 months or the entire remainder of the exercise period of the receivable. The purpose of the new hedge accounting model is that the risk management strategy and objectives of the management will be reflected in financial statements more clearly. In order to reach the objective, the criteria for applying hedge accounting have been relieved.

*IFRS 15 Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2018) includes a five-step model for recognising revenue from contracts with customers and it replaces the current IAS 18 and IAS 11 standards and the related interpretations. In accordance with the standard, revenue is recognised when the customer obtains control of goods or a service. The customer is considered to obtain control when the customer has the ability to direct the use and obtain the benefits from the goods or service. In accordance with the new standard, an entity shall recognise revenue at an amount reflecting the consideration to which the entity expects itself to be entitled against said goods or services. The Group will apply the standard as of the financial year beginning on 1 November 2018. The Group has not yet decided on the transition method to be applied.

According to the current practice, revenue from services is recognised once the service has been performed and it is probable that receiving economic benefit from the service output is probable. Sales-related service is considered to have been performed once the skins have been sold at an auction or through warehouse sales and the related risks and benefits have been transferred to the buyer. Revenue from the sales of goods is recognised when the significant risks associated with the purchase of goods have been transferred to the buyer and it is probable that the Group will receive the associated economic benefit.

The Group has begun an analysis of its customer contracts during the past financial year to identify the impacts of the new standard and will continue this work during the new financial year. Based on preliminary estimates, the Group does not expect the standard to have significant effects on the consolidated net turnover. The Group is investigating the impact of the standard on the costs of fulfilling the contract. However, the standard will increase the amount of notes disclosed in financial statements.

The Group has acknowledged that it will continue to act as an agent in sales and thus record the amount of the commission fee as turnover. With regard to other revenues, the Group acts as a principal. Revenue from the sales of goods is recognised when control has been transferred to the buyer, usually in connection with the delivery of the goods. Revenue from services is recognised during the financial year during which the services are provided.

*IFRS 16 Leases* (the amendment will be effective for financial years beginning on or after 1 January 2019). The standard replaces the current IAS 17 Leases standard. In accordance with the new standard, almost all lease liabilities will be recognised as liabilities on the lessee's balance sheet. The amendments to the lessor's accounting are not significant.

The Group is currently estimating the possible impact of the amendments on the consolidated financial statements.

**Business overview**

Restored confidence and activity in all markets were seen as high sales percentages and increased prices of mink and fox skins at the first two auctions of Saga Furs' financial year 2016/2017 in December and March. Uncertainty in the Chinese market increased clearly after the March auction. The fur trade was concerned by unsold garments during the previous season and high skin volumes on offer at international auctions towards the end of the season. The price level of both mink and fox skins decreased, and some of the skins were not sold. A total of 7.3 million mink, 2.4 million fox, 320,000 Karakul lamb and 150,000 Finnraccoon skins were sold at Saga Furs' 2016/2017 auctions. A significant share of the skins carried over from the previous season were successfully sold at the 2016/2017 auctions. Only significant amounts of various fox types were left for the 2017/2018 auctions. The value of the Group's total sales was EUR 437 million (MEUR 335) and net turnover was EUR 52.7 million (MEUR 43.0).

The price level of skins strengthened in euros compared to the previous season. The highest increase was seen in fox skins, a total of 38 per cent. The price of mink skins strengthened by 25 per cent and Finnraccoon skins by 14 per cent, while the prices of Karakul skins remained on a par with the previous season. The average exchange rate between the US dollar and euro, weighted on the basis of auction sales, remained at the previous financial period's level. The price level of skins was at its strongest at the March Saga Furs auction, when 100 per cent of the mink and fox skins offered were sold. Also, fully certified mink lots were sold for the first time in the world at the March auction. Saga Furs has already been selling certified fox and Finnraccoon for more than five years. Certification responds to the increasing demand for sustainably produced fur in the fashion industry.

Activity in China was seen at the season's auctions: China's market share in fox skin purchases increased clearly, and almost double the volume of fox skin was exported there compared to the previous season. This also strengthened the price level of fox skin. In addition, the brightened Russian market and the activity of the European fashion industry were evident at the season's auctions.

The Annual General Meeting of Saga Furs held in April 2017 decided to pay out dividends of EUR 0.20 per share in May. In addition, the Meeting authorised the Board of Directors to decide on an additional dividend of not more than EUR 0.30 per share; the Board of Directors exercised the authorisation in October. A total of EUR 1.8 million was paid out as dividends to shareholders.

Saga Furs revised and adopted a strategy based on strong partnerships. The cornerstones of the company's operations are maximising the value of producer customers' production, ensuring the demand for Finnish responsibly produced fur and being a pioneer in responsible fur production and utilisation of digitalisation. To promote the strategy, the company launched several development programmes.

The company developed a programme to support Finnish responsible fur production in cooperation with the Finnish Fur Breeders' Association (ProFur). To curb the excessive growth of blue foxes, the company will not accept oversized blue fox skins starting from the 2017/2018 season but they will be returned to the producer. ProFur's action programme addresses the body-mass index and nutrition of blue fox, breeding time, grading information, self-monitoring and cooperation with the authorities. The WelFur assessment, measuring animal well-being using several indicators, was included in the farm certification programme during the financial year.

The strategic Fox2Shop fox project launched in 2015/2016 was continued and integrated into the Fur Vision events. Its objective is to secure the demand for fox and increase the use of fox in the fashion industry's collections. The company has expanded its international partner network and cooperated with an increasing number of fashion brands.

Two sales cooperation agreements expired at the end of the financial year: the first was the cooperation with Oslo Skinnauksjoner SL and the Norwegian fur farmers' central association Norges Pelsdyralslag, the second with the North American auction company American Legend. To make use of the better awareness achieved through the cooperation with American Legend, Saga Furs started collecting mink skins in North America, where mink production is of a very high quality. Saga Furs will continue its cooperation with the Canadian auction company Fur Harvesters Auction Inc.

In Asia, Saga Furs agreed to establish an innovation centre in Haining, China, together with the Beijing Institute of Fashion Technology (BIFT) and Haining China Leather City. The training programme at the BIFTPARK-HN campus will present Saga Furs' expertise in fur craftmanship and innovation.

The company reorganised its grading operations, renting premises for mink grading next to Saga Furs' headquarters and fox grading. Due to this, the rental premises located in the Helsinki region were given up, and after 22 years, mink grading returned to the headquarters in Vantaa at the end of the period. The arrangement will provide savings in logistics, decreasing the need for transporting between different locations.

**Total sales during the financial year 1 November 2016–31 October 2017**

*Financial half-year 1 May–31 October 2017*

Saga Furs arranged an auction on 8–16 June for the last time in cooperation with the North American auction house American Legend. Approximately 600 buyers from all major market areas attended the auction. A total of 2.7 million mink (6/2016: 2.9 million), 540,000 fox (830,000), 30,000 Finnraccoon (29,000) and 31,000 Karakul lamb skins (24,000) were sold at the auction. It was decided to carry over some of the unsold fox skins to the following financial year's auctions. The value of sales of the auction was EUR 120 million (MEUR 126).

The last auction during Saga Furs' financial year 2016/2017 took place on 16–20 September. A total of 1.5 million mink (9/2016: 1.3 million) and 730,000 certified fox and Finnraccoon skins (770,000), were sold at the auction. The September auction differed from the other auctions of the financial year as a substantial portion of the selection consisted of spring skins and other lower quality grades. More than 500 buyers from all market areas attended the auction. Restored confidence and activity in all markets were seen as high sales percentages and increased prices at the auction. The value of sales at the auction rose to EUR 92 million (MEUR 69).

*Financial year 1 November 2016–31 October 2017*

During the financial year, Saga Furs organised 4 auctions and sold a total of 7.3 million mink (7.9 million in the previous financial year), 2.4 million fox (2.2 million), 320,000 Karakul lamb (280,000) and 150,000 Finnraccoon skins (150,000). The total number of skins sold during the financial year decreased by 3 per cent and amounted to 10.2 million skins (10.5 million). The higher price levels increased the sales value by 31 per cent to EUR 437 million (MEUR 335).

The value of sales by auction was divided as follows:

| Auction | **Sales 1,000 skins 2016/2017** | **Value EUR 1,000 2016/2017** | Sales 1,000 skins 2015/2016 | Value EUR 1,000 2015/2016 | Sales 1,000 skins 2014/2015 | Value EUR 1,000 2014/2015 |
|---|---|---|---|---|---|---|
| December | **483** | **32,622** | 229 | 12,433 | 795 | 49,480 |
| March | **4,077** | **188,941** | 4,273 | 123,971 | 4,540 | 307,985 |
| June | **3,330** | **120,309** | 3,796 | 125,819 | 4,058 | 219,642 |
| September | **2,241** | **92,101** | 2,122 | 69,104 | 1,688 | 55,581 |
| Warehouse sales | **47** | **3,170** | 50 | 3,413 | 57 | 4,662 |
| Total | **10,178** | **437,143** | 10,470 | 334,739 | 11,137 | 637,351 |

**Net turnover**

*Financial half-year 1 May–31 October 2017*

Due to the rise in the price level, the total value of the Group's sales increased by 8 per cent year-on-year, totalling EUR 213 million (MEUR 197). Consolidated net turnover was on a par with the previous financial year and totalled EUR 25.0 million (MEUR 24.7).

*Financial year 1 November 2016–31 October 2017*

Consolidated net turnover increased by 23 per cent year-on-year, amounting to EUR 52.7 million (MEUR 43.0). The majority of the net turnover, 91 per cent (88%), consisted of commission fees collected for skin trading. The commission fees from producers accounted for 27 per cent (32%) and the commission fees from buyers for 62 per cent (53%) of the consolidated net turnover. The remainder was generated 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 19 per cent (21%) and the share of commission fees collected from international customers was 70 per cent (64%). Of the net turnover, 14 per cent was generated in the first quarter of the financial year, 39 per cent in the second quarter, 26 per cent in the third quarter and 21 per cent in the last quarter.

**Financial performance**

*Financial half-year 1 May–31 October 2017*

The Group's other operating income decreased by 32 per cent year-on-year and amounted to EUR 344,000 (EUR 504,000). Operating expenses increased by 4 per cent to EUR 20.9 million (MEUR 20.1). The consolidated operating result was EUR 4.4 million (MEUR 5.1) for the latter half of the financial year. The net financial income decreased by 5 per cent, totalling EUR 1.3 million (MEUR 1.4). Result before taxes for the latter half of the financial year stood at EUR 5.7 million (MEUR 6.4). Due to tax entries, earnings per share in the latter half of the financial year was EUR 1.29 (1.95), and the return on equity was 5.0 per cent (8.3%).

*Financial year 1 November 2016–31 October 2017*

Other operating income decreased by 36 per cent year-on-year and amounted to EUR 790,000 (MEUR 1.2). The other operating income for the previous year included EUR 560,000 of non-recurring profits from sales of investments.

Operating expenses decreased by 5 per cent year-on-year to EUR 47.7 million (MEUR 50.1). Of the expenses, 28 per cent were generated in the first quarter of the financial year, 28 per cent in the second quarter, 22 per cent in the third quarter and 21 per cent in the last quarter. Personnel expenses accounted for 40 per cent and other operating expenses for 46 per cent of the operating expenses. Personnel expenses were down 4 per cent year-on-year in spite of annual bonuses earned during the financial year, totalling EUR 18.9 million (MEUR 19.8). The average number of personnel decreased by 8 per cent. Expenses related to international advocacy through International Fur Federation (IFF) and Fur Europe increased by 32 per cent, totalling EUR 1.9 million (MEUR 1.5). In addition, the funding of the WelFur assessment system collected from buyers increased the company's net turnover and expenses by EUR 1.0 million. Credit losses recorded for receivables from buyers decreased by EUR 1.6 million to EUR 350,000. Due to the increase in the price level, the consolidated operating result improved by EUR 11.7 million and amounted to EUR 5.8 million (loss of MEUR 5.9).

Consolidated net financial income grew by 17 per cent, totalling EUR 3.4 million (MEUR 2.9). Shares still on the joint account with regard to which the registration of shareholder rights in the book-entry system had not been requested prior to the decision by the Annual General Meeting on 27 April and completed by 31 July 2017 were transferred to the company's ownership. In connection, unpaid dividends associated with these shares, totalling EUR 450,000, were recognised as revenue under other financial income. Exchange rate gains almost doubled compared to the previous financial year. Consolidated result before taxes increased by EUR 12.1 million and amounted to EUR 9.2 million (MEUR -3.0).

Consolidated return on equity for the financial year was 8.0 per cent (-2.7%), and earnings per share were EUR 2.05 (EUR -0.68). Equity per share was EUR 26.57 (EUR 24.59) and the Group's equity ratio was 58.0 per cent (44.8%).

**Capital expenditure**

Consolidated gross capital expenditure during the financial year totalled EUR 1.9 million (MEUR 2.9), accounting for 4 per cent (7%) of net turnover. Of the capital expenditure, 17 per cent was spent on the parent company's intangible assets, 60 per cent on the parent company's tangible assets, and 23 per cent on the subsidiaries' tangible assets. The most significant investments were related to grading automation, pelting equipment and various IT applications.

**Personnel**

During the financial year, the company employed 351 people on average. The majority of the personnel works in jobs relating to the handling of skins.

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

| | Parent Company | | | Group | | |
|---|---|---|---|---|---|---|
| | 2016/2017 | 2015/2016 | 2014/2015 | 2016/2017 | 2015/2016 | 2014/2015 |
| Average number of personnel | 271 | 293 | 289 | 351 | 383 | 382 |
| - permanent staff | 118 | 125 | 121 | 160 | 169 | 164 |
| - fixed-term staff | 153 | 168 | 168 | 191 | 214 | 218 |
| Number of staff at the end of the financial year on 31 Oct | 123 | 123 | 129 | 171 | 179 | 193 |

**Share trade and share performance**

The value of shares traded during the financial year totalled EUR 11.5 million and the volume was 675,000 shares, representing 25 per cent of the company's Series C shares. The highest price of the share during the financial year was EUR 20.50 and the lowest price EUR 13.00, with the average price being EUR 16.97. At the end of the financial year, the Series C share closed at EUR 15.94, while a year earlier, it closed at EUR 13.61. The market capitalisation totalled EUR 56.9 million (MEUR 49.0) at the end of the financial year, on 31 October.

**Annual General Meeting**

The Annual General Meeting of Saga Furs Oyj (plc) held on 27 April 2017 approved the financial statements for the financial year ending on 31 October 2016 and decided to distribute a dividend of EUR 0.20 per share. The dividend was paid out on 9 May 2017. In addition, the Annual General Meeting made a decision to authorise the Board of Directors to decide on an additional dividend of EUR 0.30 per Series A or C share at the maximum. The authorisation will be valid until the beginning of the next Annual General Meeting. The Board of Directors exercised the authorisation granted by the Meeting on 6 October 2017, deciding to distribute an additional dividend of EUR 0.30 per share. The additional dividend was paid out on 17 October 2017.

The Annual General Meeting also decided that the shares in the joint account will be forfeited. In accordance with Chapter 4, Section 10, subsection 2 of the Limited Liability Companies Act, the forfeiture concerned the shares that were in the joint account with regard to which the registration of shareholder rights in the book-entry system had not been requested prior to the decision by the Annual General Meeting. Thus, at the maximum, the decision concerned the 1,450 Series A shares out of the total of 900,000 Series A shares and 61,794 Series C shares out of the total of 2,700,000 Series C shares registered in the said joint account on the date of the notice of meeting, 27 March 2017. The number of shares whose transfer into the book-entry system had been validly requested prior to the decision made by the Annual General Meeting concerning the matter and whose request for conversion after the conversion period had been finalised by 31 July 2017, were to be deducted from the number of shares referred to above. The dividends not paid on the forfeited shares, totalling approximately EUR 450,000, were recognised as income by the company for the past financial year. The Board of Directors was also authorised to decide on a share issue based on the disposal of treasury shares. The authorisation concerned a maximum of 1,450 Series A shares and 61,794 Series C shares. At the discretion of the Board of Directors, the company may either hold, cancel or dispose of the forfeited treasury shares based on the authorisation mentioned above. Based on the above-mentioned decision by the Annual General Meeting, a total of 63,088 Series A and C shares were transferred to the company.

The Annual General Meeting held on 27 April 2017 decided that the number of the members of the Board of Directors is eight. Fur breeders **Kenneth Ingman**, **Lasse Joensuu**, **Jorma Kauppila**, **Anders Kulp, Isto Kärkäinen, Hannu Sillanpää** and **Rainer Sjöholm,** as well as **Virve Kuusela**, who is independent of the fur trade, were elected to the Board of Directors for a term to run until the next Annual General Meeting. Following the Annual 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 Annual 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

Saga Furs' risks are managed in a systematic and preventive way so that the company is able to estimate and manage business-related risks, threats and opportunities. The company operates in a cyclical industry, and responding to changes takes time due to the nature of the business. Also, the demand for fur is not steady throughout the year, due to fur being primarily used during the winter season.

The risks associated with Saga Furs 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, but 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. The most significant risk factors described below may have a negative impact on the business and value of Saga Furs. Also other risks that are not currently considered to be significant or the company is not currently aware of may become significant.

Financial risks are described in Note 25 to the Consolidated Financial Statements.

#### *Most significant business risks*

Weakening global economy could lead to a deterioration of the market environment and tightening competition. The fur trade is sensitive to cyclical fluctuations, and any overproduction of fur skins would strengthen the fluctuations further. The economic or political situation of individual countries could have a significant impact on Saga Furs' business. The impact of the saturation of an individual market or change in its resale network could be significant on Saga Furs' business. The impact would be particularly severe should one of the above-mentioned risks take place in the company's most important market, China.

Stronger-than-expected decline in the fashion industry's fur sales and long-term weakness or use of fur in general could lead to decreasing business volume and delays in skin sales. This would also further impair the availability of financing in the fur trade. Customers' purchase behaviour could postpone skin sales increasingly late in the season. This could lead to a shorter dressing phase, and thereby to an insufficient dressing capacity that could have an impact on the company's operating result.

An improvement in the quality of skins from a new fur production country or changes in the services and offering of competitors could lower the company's and its customer producers' competitiveness.

Saga Furs operates internationally in an industry with varying local regulatory requirements. Sudden amendments to legislation could lead to an increase in production costs or changes in the market environment, which, in turn, might have a negative impact on the company's profitability. In addition, limitations of free trade, changes in the geopolitical situation or tightening of regulatory protectionism could result in a more challenging market environment.

#### *Most significant property and damage risks*

Major accidents in the company's production facilities, such as fires, machine breakdowns, severe defects in information systems or the security of the premises could interrupt the company's operations. The company has prepared continuity plans in case these risks realise. Property risks are primarily covered through general insurance.

#### *Most significant operational risks*

As a leader in its industry, Saga Furs has a strong brand and trademark. Damage to the company's and the industry's image could have effects on the company's business and financial performance. Animal health and well-being play a key role in sustainability work, certification and skin quality, all of which are part of the company's brand. Therefore, especially image-related damage concerning the well-being of animals could impair the company's operations.

Saga Furs operates internationally, where focused management of rapid business transformations is required. In addition, sufficient resourcing and skilled and motivated employees are needed.

Digitalisation, new customer requirements and business models could have a significant impact on business operations. Failure to foresee changes in the operating environment and in strategic choices could result in impaired competitiveness, market share or profitability. Also, new parties entering the industry may introduce operating and business methods that the company might need to foresee.

### *Most significant financial risks*

Saga Furs' sales and payments to skin suppliers also involve currencies other than the euro, which exposes the company to risks arising from changes in exchange rates. Saga Furs is also exposed to risks associated with its customers' solvency and payment schedule and that may lead to credit losses. Significant amendments to different countries' financing or tax regulations might also have a significant effect on the company's financial performance. More detailed information about financial risks is presented in Note 25 to the consolidated financial statements.

## Main events after the end of the financial year

The first auction of the financial year 2016/2017 was held on 20–21 December 2017. Offered items included almost 300,000 fox (12/2016: 330,000), approximately 30,000 Finnraccoon (31,000) and 300,000 (220,000) Karakul lamb skins. The fox skins offered for sale in the auction were mainly graded and unsold from the previous financial year. More than 250 buyers from key market areas attended the auction. The total sales was 18 million euros (12/2016: MEUR 33).

At the auction, silver, mutation and Blue Shadow foxes and Finnraccoons were 85 per cent sold at a stable price. The euro prices of blue fox dropped around 10 per cent and only slightly more than half were sold. The purchases at the auction were mainly for the European fashion industry and Korea, Turkey and Russia.

A bill to revise the Animal Protection Act was submitted to the Parliament of Poland in November 2017, proposing, among other things, to ban fur production as of 1 January 2024. In January 2018, the programme of Norway's new government outlined an aim to ban fur production as of 1 January 2025.

During autumn 2017, the North American auction house American Legend ended up in financial difficulties. The situation has divided the producers, and Saga Furs is clearly increasing its collection of mink skins in North America during the current financial year.

## Estimate of business development in the current financial year

Two well-known fashion houses gave up the use of fur during the past autumn and winter. The international fashion industry is, however, largely using fur in its collections, which illustrates the strong position of sustainably produced fur in fashion. Saga Furs' strategic project to increase the use of fox in collections has, in part, contributed to the demand for Finnish fox skins.

In the company's main market China, the most important retail season continues until mid-February i.e. the Chinese New Year, which takes place later this year than the previous year. Chinese customers purchased more skins in the financial year 2016/2017 than the previous season that some of them will be carried over for use in the following retail season. Garment inventories are currently large in China. The oversupply is pressing prices down, and the market situation makes Chinese customers' access to financing difficult. The situation is expected to influence Chinese customers' purchase behaviour at auctions in the current financial year.

The recovery of the Russian market continues, and the country's economy has stabilised and inflation is under control. In addition, production of fur garments and accessories has returned to growth in Russia after several years of decline. Retail sale of fur got off to a good start and has remained stable.

In addition to the December 2017 auction, Saga Furs will arrange auctions in March, June and September 2018. The company intends to offer 8.0 million mink, 2.4 million fox, 150,000 Finnraccoon and 450,000 Karakul lamb skins in the season's auctions. The March auction will be arranged in cooperation with the Canadian auction house Fur Harvesters Auction Inc.

The development programmes associated with the company's revised strategy, expanding the operations in North America and establishing a presence in Norway, are expected to increase the skin-specific expenses during the financial year. Relocating mink grading operations in Fur Center will cause non-recurring expenses for the financial year. However, the relocation will result in significant logistics savings in the longer term.

The rising interest rates of the US dollar and customers' challenges with access to financing are expected to have a negative impact on the company's net financial income. The company's producer customers are expected to use the advance financing offered by the company more than in the previous financial year.

Making estimates of the sales of future auctions on the basis of the December auction is premature. The result for the financial period will depend on the sales results of the upcoming auctions, which, in the current market situation, are impossible to forecast.

**The Board of Directors' proposal for the distribution of profit**

On 31 October 2017, the parent company's distributable funds were as follows:

| | |
|---|---|
| - retained earnings | 53,040,798.34 |
| - profit for the financial year | 7,162,056.59 |
| - to be transferred to the counter-cyclical budgetary fund in accordance with the Articles of Association | -716,205.66 |
| | 59,486,649.27 |

The Board of Directors proposes to the Annual General Meeting that

- a dividend of EUR 1.00 per share be paid to shareholders from the distributable funds for 1 November 2016–31 October 2017 and
- that EUR 720,000 be transferred to the counter-cyclical budgetary fund.

The proposed record date for dividend payment is 23 April 2018 and the payment date is 30 April 2018. All shares outstanding on the record date for dividend payout, apart from shares held by the parent company, are entitled to divided for the financial year 2016/2017.

**Consolidated statement of financial position, IFRS**

EUR 1,000

| ASSETS | 31 Oct 2017 | 31 Oct 2016 |
|---|---|---|
| **Non-current assets** | | |
| Property, plant and equipment | **35,162** | 37,067 |
| Intangible assets | **3,838** | 4,659 |
| Available-for-sale investments | **352** | 352 |
| Long-term receivables | **15,135** | 13,819 |
| Non-current assets, total | **54,487** | 55,897 |
| | | |
| **Current assets** | | |
| Inventories | **2,038** | 1,951 |
| Interest-bearing receivables from buyers | **25,493** | 43,247 |
| Interest-bearing receivables from fur breeders | **65,857** | 65,353 |
| Non-interest-bearing receivables | **33,415** | 38,633 |
| Tax assets based on taxable income for the period | **468** | 59 |
| Cash and cash equivalents | **3,223** | 11,815 |
| Current assets, total | **130,495** | 161,058 |
| | | |
| Total assets | **184,982** | 216,955 |

| SHAREHOLDERS' EQUITY AND LIABILITIES | 31 Oct 2017 | 31 Oct 2016 |
|---|---|---|
| **Equity attributable to parent company's shareholders** | | |
| Share capital | **7,200** | 7,200 |
| Share premium account | **254** | 254 |
| Other funds | **20,385** | 20,385 |
| Translation difference | **57** | 61 |
| Retained earnings | **66,093** | 60,616 |
| Shareholders' equity, total | **93,990** | 88,516 |
| | | |
| **Non-current liabilities** | | |
| Deferred tax liabilities | **2,329** | 1,677 |
| | | |
| **Current liabilities** | | |
| Interest-bearing liabilities | **49,356** | 96,044 |
| Trade and other payables | **39,221** | 30,638 |
| Deferred taxes based on the taxable income | **85** | 81 |
| Current liabilities, total | **88,662** | 126,763 |
| | | |
| Total liabilities | **90,991** | 128,440 |
| | | |
| Total shareholders' equity and liabilities | **184,982** | 216,955 |

## Consolidated statement of comprehensive income

| EUR 1,000 | **1 May 2017–31 Oct 2017 6 mo** | **1 Nov 2016–31 Oct 2017 12 mo** | 1 May 2016–31 Oct 2016 6 mo | 1 Nov 2015–31 Oct 2016 12 mo |
|---|---|---|---|---|
| **Continuous operations** | | | | |
| Net turnover | **25,009** | **52,730** | 24,687 | 43,008 |
| Other operating income | **344** | **794** | 504 | 1,241 |
| | | | | |
| Materials and supplies | **-865** | **-2,216** | -1,806 | -3,530 |
| Employee benefits | **-7,582** | **-18,916** | -6,897 | -19,794 |
| Depreciation and impairment loss | **-2,250** | **-4,569** | -2,337 | -4,707 |
| Other operating expenses | **-10,222** | **-22,050** | -9,081 | -22,098 |
| | | | | |
| Operating profit/loss | **4,434** | **5,774** | 5,071 | -5,880 |
| | | | | |
| Financial income | **2,330** | **5,132** | 2,363 | 4,955 |
| Financial expenses | **-1,027** | **-1,728** | -986 | -2,036 |
| | | | | |
| Profit/loss before tax | **5,737** | **9,178** | 6,448 | -2,960 |
| | | | | |
| Income tax | **-1,165** | **-1,922** | 581 | 522 |
| | | | | |
| Net profit/loss for the reporting period | **4,572** | **7,256** | 7,029 | -2,438 |
| | | | | |
| **Other comprehensive income** | | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods | | | | |
| Available-for-sale investments | **0** | **0** | 0 | -533 |
| Translation differences | **0** | **0** | 7 | 13 |
| Income tax effect | **0** | **0** | 0 | 107 |
| Net other comprehensive income to be reclassified to profit or loss in subsequent periods | **0** | **0** | 7 | -414 |
| | | | | |
| Total comprehensive income/expense | **4,572** | **7,255** | 7,037 | -2,852 |
| | | | | |
| Earnings per share, EUR, basic *) | **1.29** | **2.05** | 1.95 | -0.68 |

*) There are no factors diluting the key performance indicator

**Consolidated statement of cash flows**

| EUR 1,000 | **1.11.2016– 31.10.2017** | 1.11.2015– 31.10.2016 |
|---|---|---|
| | **12 mo** | 12 mo |
| *Cash flow from operating activities* | | |
| Payments received for selling on commission | **470,175** | 334,683 |
| Cash received from other operating income | **415** | 358 |
| Cash paid for other operating expenses | **-431,729** | -324,169 |
| Cash flow from operating activities before financial items and taxes | **38,860** | 10,871 |
| | | |
| Interests, paid | **-914** | -1,419 |
| Other financial expenses | **-535** | -652 |
| Interest, received | **4,384** | 5,540 |
| Other financial income | **275** | 186 |
| Direct taxes paid | **-1,674** | 452 |
| Net cash flow from operating activities (A) | **40,396** | 14,978 |
| | | |
| *Cash flow from investment activities* | | |
| Investments in tangible and intangible assets | **-1,931** | -2,894 |
| Proceeds from sale of tangible and intangible assets | **167** | 52 |
| Investments in other assets | **0** | -25 |
| Proceeds from sale of other assets | **0** | 584 |
| Net cash flow from investments activities (B) | **-1,764** | -2,282 |
| | | |
| *Cash flow from financing activities* | | |
| Re-payments of short-term borrowings | **-45,547** | -3,593 |
| Dividends paid | **-1,678** | -3,537 |
| Net cash flow from financing activities (C) | **-47,225** | -7,130 |
| | | |
| Change in cash flows (A+B+C) increase (+) / decrease (-) | **-8,592** | 5,566 |
| | | |
| Cash and cash equivalents, 31 Oct | **3,223** | 11,815 |
| ./. Cash and cash equivalents, 1 Nov | **11,815** | 6,249 |
| Net change in cash and cash equivalents | **-8,592** | 5,566 |

**Consolidated statement of changes in shareholders' equity 1.11.2015–31.10.2016**

| | Share capital | Share premium account | Other funds | Translation difference | Fair value reserve | Retained earnings | Before minority interests | Minority interests | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| 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** |

**Consolidated statement of changes in shareholders' equity 1.11.2016–31.10.2017**

| | Share capital | Share premium account | Other funds | Translation difference | Fair value reserve | Retained earnings | Before minority interests | Minority interests | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| Shareholders' equity, 1 Nov 2016 | 7,200 | 254 | 20,385 | 61 | 0 | 60,616 | **88,516** | 0 | **88,516** |
| Result for the reporting period | | | | | | 7,256 | **7,256** | | **7,256** |
| Other comprehensive income/expense | | | | -4 | | 3 | **0** | | **0** |
| Dividend | | | | | | -1,781 | **-1,781** | | **-1,781** |
| Shareholders' equity, 31 Oct 2017 | 7,200 | 254 | 20,385 | 57 | 0 | 66,093 | **93,990** | 0 | **93,990** |

## Key performance indicators

| | **2016/2017** | 2015/2016 |
|---|---|---|
| | **12 mo** | 12 mo |
| Total sales, EUR 1,000 | **437,143** | 334,740 |
| Net turnover, EUR 1,000 | **52,730** | 43,008 |
| Operating profit/loss, EUR 1,000 | **5,774** | -5,880 |
| % of net turnover | **11.0** | -13.7 |
| Profit before taxes, EUR 1,000 | **9,178** | -2,960 |
| % of net turnover | **17.4** | -6.9 |
| Earnings per share, EUR | **2.05** | -0.68 |
| Equity per share, EUR | **26.57** | 24.59 |
| Return on equity (ROE)-% | **8.0** | -2.7 |
| Return on investment (ROI)-% | **6.4** | -0.8 |
| Equity-to-assets ratio, % | **58.0** | 44.8 |
| Gearing | **0.49** | 0.95 |
| Gross capital expenditure, EUR 1,000 | **1,931** | 2,918 |
| % of net turnover | **3.7** | 6.8 |
| Average number of personnel | **351** | 383 |

## Principles for calculating key performance indicators:

| | | |
|---|---|---|
| Return on equity (ROE)-% | = | Profit/Loss for the financial period x 100 / shareholders' equity *) |
| Retun 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 / average number of outstanding shares |
| Equity per share, EUR | = | Shareholders' equity / number of outstanding 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 2017** | 31 Oct 2016 |
|---|---|---|
| **Mortgages given and receivables pledged in security for dept** | | |
| Loans from financial institutions | **20,842** | 65,100 |
| Mortgages on property | **54,071** | 54,071 |
| Mortgages on company assets | **2,691** | 2,691 |
| Pledges given | **791** | 791 |
| **Derivative contracts** | | |
| Forward exchange agreements | **7,602** | 25,604 |

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 996,852 euro

**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 2,092,000 and the last year of inspection is 2026.

## Related Party Transactions

| EUR 1,000 | **2016/2017 12 mo** | 2015/2016 12 mo |
|---|---|---|
| **Transactions with related parties:** | | |
| *Net turnover* | | |
| - parent company | **5** | 0 |
| - other related party | **489** | 379 |
| *Other operating income* | | |
| - parent company | **46** | 48 |
| *Purchase of materials and supplies* | | |
| - other related party | **-6** | -5 |
| *Other operating expenses* | | |
| - parent company | **-18** | -17 |
| *Financial income* | | |
| - other related party | **27** | 49 |
| *Financial expenses* | | |
| - parent company | **-5** | -6 |
| - other related party | **-2** | -4 |
| *Related party receivables* | | |
| - other related party | **987** | 467 |
| *Related party liabilities* | | |
| - parent company | **-1,691** | -2,269 |
| - other related party | **-944** | -1,424 |

**Management compensation**

| | | |
|---|---|---|
| Remuneration and other short-term employee benefits | **1,476** | 1,580 |

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

Vantaa, 25 January 2018

SAGA FURS OYJ (plc)
Board of Directors