

A woman with long brown hair, wearing a white ribbed turtleneck sweater and a long, voluminous fur coat with white and brown patches, stands in a snowy landscape under a clear blue sky. Her hair is blowing in the wind, and she is looking down and to the left.

FINANCIAL STATEMENTS BULLETIN

FOR THE FINANCIAL YEAR
1 NOVEMBER 2017-31 OCTOBER 2018

sagafurs®

SAGA FURS OYJ (PLC)

FINANCIAL STATEMENTS BULLETIN FOR THE FINANCIAL YEAR 1 NOVEMBER 2017–31 OCTOBER 2018

The result of the financial year was negative, as expected

- Saga Furs Oyj's total value of brokerage sales during the financial year 1 November 2017–31 October 2018 decreased by 28 per cent and amounted to EUR 314 million (MEUR 437 for the previous financial year).
- The price level of mink pelts in EUR decreased by 24 per cent and the price level of fox pelts by 20 per cent from the previous financial year. Along with the challenging market situation the decline in prices was affected by the US dollar exchange rate, weighed with auction sales, that decreased by 9 per cent.
- The number of pelts sold fell by 8 per cent as the company carried over an exceptionally big number of mink pelts to be sold during the next financial year. The company auctioned a total of 9.3 million pelts during the financial year (2016/2017: 10.2 million).
- Consolidated net turnover decreased by 13 per cent, amounting to EUR 45.7 million (MEUR 52.7).
- Due to the strong decline in prices and a decrease in the number of pelts sold, the consolidated operating loss was EUR 4.5 million (a profit of MEUR 5.8).
- Consolidated net financial income declined by 20 per cent, totalling EUR 2.7 million (MEUR 3.4).
- Profit/loss before tax decreased by EUR 10.9 million and showed a loss of EUR 1.7 million (a profit of MEUR 9.2).
- Consolidated earnings per share were EUR -0.43 (EUR +2.05 in the previous financial year).
- The Board of Directors will propose to the Annual General Meeting, convening on 26 April 2019, that a dividend of EUR 0.50 per share to be paid to shareholders from the distributable funds for the financial year 1 November 2017–31 October 2018.

Consolidated key figures	5/18–10/18 6 months	11/17–10/18 12 months	5/17–10/17 6 months	11/16–10/17 12 months
Total value of brokerage sales, MEUR	155.9	314.4	212.7	437.1
Number of pelts sold, 1,000 pcs	5,364	9,341	5,578	10,178
Net turnover, MEUR	22.8	45.7	25.0	52.7
Operating profit/loss, MEUR	0.1	-4.5	4.4	5.8
Profit before tax, MEUR	1.2	-1.7	5.7	9.2
Earnings per share, EUR	0.40	-0.43	1.29	2.05
Return on equity (ROE), %	1.6%	-1.7%	5.0%	8.0%
Return on investment (ROI), %	1.1%	-0.5%	4.2%	6.4%

Accounting principles

The information in this financial statements bulletin is based on the report of the Board of Directors and the audited financial statements published on the company website www.sagafurs.com on 28 January 2019 at 16:00. The financial statements bulletin was prepared in accordance with IAS 34 Interim Financial Reporting.

The amendments in *IAS 7 Statement of Cash Flows* standard shall apply on reporting periods beginning on or after 1 January 2017. These amendments require that companies shall explain in the notes any change in debt due to financing, including not only changes due to cash flows but also changes with no cash flows, such as changes due to exchange rate gains and losses. The before-mentioned amendments or other new or amended standards or interpretations that apply on reporting periods beginning on or after 1 January 2017 do not significantly affect the consolidated financial statement of Saga Furs Oyj (plc).

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 new standard replaces most of the guidelines given in IAS 39. Under IFRS 9, financial assets are classified into three measurement categories: amortised cost, fair value through other comprehensive income, and fair value through profit and loss statement. In terms of financial liabilities, the standard complies with most requirements of IAS 39. The old IAS 39 model based on realised credit losses is replaced by a new model based on expected impairments. The Group applies the standard for the first time in the financial year that started on 1 November 2018. The new standard is not expected to have any effect on the profit/loss and balance sheet of the business apart from recognition of impairment losses. The Group has decided to take advantage of a transitional relief allowing not to restate the comparative period.

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. According to 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 applies the standard for the first time in the financial year that started on 1 November 2018. The Group has decided to apply the modified retrospective method.

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 will be collected. Sales-related service is considered to have been performed once the pelts have been sold at an auction or between scheduled auctions (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 analysed its customer contracts to identify impacts of the standard and does not expect the standard to have significant effects on the consolidated net turnover. The most significant impact on the consolidated income statement is expected to result from the costs of complying with the contract in situations where pelts graded during a financial year remain unsold and are carried over to be sold in following financial years. However, the standard will increase the amount of notes disclosed in financial statements.

The Group has defined that its performance obligation with respect to brokerage sales comprises grading, storage and brokerage sales services to fur producers. The performance obligation is satisfied and sales commissions collected from the producers and buyers for sold pelts are recognised when the pelts have been sold and the obligation of sales settlements for the producers has arisen. With regard to grading, storage, brokerage sales and pelting services, the Group acts as a principal. However, in pelt sales, Saga Furs Oyj acts as an agent in relation to fur producers. 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). Under the new standard, the lessee shall recognise lease liabilities in balance sheet, representing nearly all rentals to be paid in the future, as well as right-of-use assets, while the distinction between financial leases and operating leases is abolished. The standard includes a voluntary relief to lessees, covering leases that have a term of less than 12 months or that are of low value. The lessor continues to report as before, that is, the division into financial leases and operating leases is still made. The Group applies the standard for the first time in the financial year beginning on 1 November 2019.

The Group's business premises are mainly owned by the Group. However, the introduction of IFRS 16 will increase the value of assets and liabilities recognised in terms of the current office, warehouse and other leases, included in the operating leases. The change will affect also the income statement structure as the

income statement shall include depreciated assets and interest expenditure on lease liabilities, instead of leasing expenses under other operating expenses.

Business overview

In the financial year 1 November 2017–31 October 2018, Saga Furs' auction sales were marked by uncertainty due to oversupply of pelts. Chinese customers had purchased so many more pelts during the financial year 2016/2017 than the previous season that some of them were carried over for use in the following retail season. Garment inventories are still large in China. The oversupply pushed the prices down and affected the purchase behaviour of Chinese customers in auctions of the financial year. In the challenging market situation, 95 per cent of fox and 90 per cent of mink volumes were sold, and the pelt prices decreased clearly from the previous financial year.

On 27 March 2018, Saga Furs Oyj issued a negative profit warning that stated that the consolidated result is expected to remain clearly lower than that of the previous financial year. It was noted that oversupply was still pushing prices down, China had large inventories of unsold garments and pelts, and the uncertain market situation was impairing customers' access to financing. It was estimated that the auction prices of both mink and fox pelts would remain below the previous year's level for the remainder of the financial year. Volumes at the international auctions between May and September were estimated to exceed those of the previous year, as the global production of pelts was nearly unchanged. The Group's half-year financial report published 27 June 2018 estimated the result for the financial year to be negative.

At Saga Furs' 2017/2018 auctions, a total of 6.9 million mink, 2.1 million fox, 260,000 Karakul lamb and 150,000 Finn raccoon pelts were sold. An exceptionally large number of mink pelts were carried over to be sold during the next financial year. The value of Group's brokerage sales was EUR 314 million (MEUR 437) and net turnover was EUR 45.7 million (MEUR 52.7).

Inventories of unsold pelts and garments at different levels of the trade chain continue to have a negative impact on the demand in China. However, low prices of fur products encourage the textile and fashion industry to increase the use of fur in their collections. It must also be noted that the uncertain market situation has made many manufacturers cautious. They try to reduce storage costs and minimise the price risk by buying the pelts only when they are needed for the production of garments.

The market shares of the European fashion industry and South Korea grew in fox and mink pelts while China remained by far the largest market area. In addition, the brightening of Russian market was evident at the season's auctions.

The Annual General Meeting of Saga Furs held in April 2018 decided to pay out dividends of EUR 1.00 per share. A total of EUR 3.5 million was paid out as dividends to shareholders. In addition, the General Meeting authorised the Board of Directors to decide on a share issue based on the disposal of treasury shares. The authorisation concerned a maximum total of 1,630 Series A shares and 61,458 Series C shares, with a maximum number representing approximately 1.76% of the company's total number of shares. Based on the authorisation, the Board of Directors may decide on a directed share issue, and the authorisation can be used in one or more rounds.

Saga Furs continued implementation of the strategy that had been renewed during the previous financial year. The cornerstones of the company's operations are maximising the value of producer customers' production, ensuring the demand for Finnish sustainably produced fur in addition to being a pioneer in sustainable fur production and utilisation of digitalisation.

The company has an operational programme to develop Finnish sustainable fur production in cooperation with its parent association Finnish Fur Breeders' Association (ProFur). The programme pays attention to animal welfare, by developing body mass index tool, for example. It also includes guidelines for the selection of breeding animals and breeding time, along with increased self-monitoring and cooperation with the authorities. In addition, the WelFur assessments, measuring animal well-being using several indicators, were continued during the financial year. A fur farm shall pass WelFur assessments as part of the farm certification programme by December 2019 in order to be able to sell pelts through Saga Furs Oyj.

During the financial season, Saga Furs continued to work towards increasing the use of fur in collections. Fur Vision events, aimed at fashion designers, reached again a large number of professionals in the fashion capitals of the world. The strategic Fox2Shop fox project sped up, and Saga Furs expanded its international partner network, beginning a large number of new collaboration projects with the fashion industry.

In Asia, the first courses were held at Haining university campus, established by Saga Furs together with a leading Chinese design school, Beijing Institute of Fashion Technology (BIFT) and Haining China Leather City (HCLC). The training programme at the BIFTPARK-HN campus teaches Chinese designers and manufacturers to utilise Saga Furs' expertise in fur craftsmanship and innovation.

Saga Furs is a minority shareholder in a pelting centre established during the financial year with local producers in the United States. This is a part of the service package that Saga Furs offers in North America with the objective of increasing its market share of the high-quality North American mink pelt production, and thus increasing the attractiveness of its auction offerings. Saga Furs will continue its cooperation with the Canadian auction company Fur Harvesters Auction Inc.

Brokerage Sales

Financial half-year 1 May–31 October 2018

On 8–15 June 2018, Saga Furs Oyj held an auction that was attended by approximately 450 buyers from all major market areas. 73 per cent of the 3.9 million Saga® mink pelts on offer were sold. More than 90 per cent of over 700,000 Saga® fox and 35,000 Saga® Finn raccoon pelts offered for sale were sold. The auction was challenging as different levels of the trade still have a large number of unsold pelts and garments. The supply and demand were not in balance which was strongly reflected in the price level. A total of 2.9 million mink pelts (6/2017: 2.7 million), 640,000 fox pelts (540,000), 28,000 Finn raccoon pelts (30,000) and 27,000 Karakul lamb pelts (31,000) were sold at the auction. The value of brokerage sales at the auction was EUR 106 million (MEUR 120).

The last auction during Saga Furs' financial year 2017/2018 took place on 14–18 September. A total of 1.2 million mink pelts (9/2017: 1.5 million) and 530,000 certified fox and Finn raccoon pelts (730,000) were sold at the auction. The September auction differed from the other auctions of the financial year as substantial portion of the selection consisted of summer and other lower-quality pelts. More than 370 buyers from China, Russia, South Korea and the major European fashion markets attended the auction. The continued challenging market situation was reflected in the results of the auction. The value of brokerage sales at the auction was EUR 49 million (MEUR 92).

Financial year 1 November 2017–31 October 2018

During the financial year, Saga Furs sold a total of 6.9 million mink pelts (2016/2017: 7.3 million), 2.1 million fox pelts (2.4 million), 260,000 Karakul lamb pelts (320,000) and 150,000 Finn raccoon pelts (150,000). An exceptionally large number of mink pelts were carried over to be sold during the next financial year. The low prices and reduced number of pelts sold pushed sales down by 28 per cent to EUR 314 million (MEUR 437).

The value of brokerage sales by auction was divided as follows:

Auction	Brokerage sales 1,000 pelts 2017/2018	Value EUR 1,000 2017/2018	Brokerage sales 1,000 pelts 2016/2017	Value EUR 1,000 2016/2017	Brokerage sales 1,000 pelts 2015/2016	Value EUR 1,000 2015/2016
December	294	18 333	483	32 622	229	12 433
March	3 676	139 930	4 077	188 941	4 273	123 971
June	3 570	105 976	3 330	120 309	3 796	125 819
September	1 767	48 795	2 241	92 101	2 122	69 104
Warehouse sales	34	1 415	47	3 170	50	3 413
Total	9 341	314 449	10 178	437 143	10 471	334 740

Net turnover

Financial half-year 1 May–31 October 2018

The imbalance of supply and demand persisted in the second half of the financial year. Due to the decreased price level, the value of the Group's brokerage sales fell by 27 per cent year-on-year, totalling EUR 156 million (213 MEUR). Consolidated net turnover decreased by 9 per cent, totalling EUR 22.8 million (EUR 25.0 million).

Financial year 1 November 2017–31 October 2018

Consolidated net turnover decreased by 13 per cent from the previous financial year, amounting to EUR 45.7 million (MEUR 52.7). The majority of net turnover, 89 per cent (91%), consisted of commission fees collected for pelt trading. The commission fees from producers accounted for 31 per cent (27%) and the commission fees from buyers for 58 per cent (62%) 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 20 per cent (19%) and the share of commission fees collected from international customers was 69 per cent (70%). Of the net turnover, 11 per cent was generated in the first quarter of the financial year, 39 per cent in the second quarter, 32 per cent in the third quarter and 18 per cent in the last quarter.

Financial performance

Financial half-year 1 May–31 October 2018

Other operating income of the Group amounted to EUR 210,000 (EUR 340,000) in the second half of the financial year. Operating expenses increased by 9 per cent year-on-year, totalling EUR 22.9 million (MEUR 20.9). Due to a decrease in turnover and increase in operating expenses, consolidated operating profit in the second half of the financial year decreased to EUR 0.1 million (MEUR 4.4). Net financial income declined by 21 per cent, totalling EUR 1.0 million (MEUR 1.3). Consolidated profit was EUR 1.4 million (MEUR 4.6) in the second half of the financial year. Return on equity was 1.6 per cent (5.0 per cent), with earnings per share amounting to EUR 0.40 (EUR 1.29).

Financial year 1 November 2017–31 October 2018

Other operating income decreased by 33 per cent year-on-year and amounted to EUR 530,000 (EUR 790,000).

Operating expenses increased by 6 per cent year-on-year to EUR 50.7 million (MEUR 47.7). Of the expenses, 27 per cent were generated during the first quarter of the financial year, 28 per cent in the second quarter, 20 per cent in the third quarter and 25 per cent in the last quarter. Personnel expenses accounted for 37 per cent and other operating expenses for 49 per cent of the operating expenses. Personnel expenses remained on the same level as the previous financial year and totalled EUR 19.0 million (MEUR 18.9). The average number of personnel remained on the same level as the previous financial year. Expenses related to Welfur assessments and international lobbying through IFF and Fur Europe decreased by 10 per cent, totalling EUR 2.6 million (MEUR 2.9). Credit losses recorded for receivables from buyers increased by EUR 1.6 million, totalling EUR 2.0 million. In addition, the expansion of the Group's business to North America and Norway is reflected in other operating expenses. Due to a decrease in turnover and increase in expenses, consolidated operating result decreased by EUR 10.2 million, showing a loss of EUR 4.5 million (profit of MEUR 5.8).

Consolidated net financial income declined by 20 per cent, totalling EUR 2.7 million (MEUR 3.4), even if net interest income, EUR 3.2 million, remained on the same level as the previous financial year. Also credit losses recorded for receivables from fur producers, EUR 400,000, remained on the same level as the previous financial year. In the previous financial year, net financial income was increased by a non-recurring recognition as income of dividends payable of EUR 450,000 on forfeited shares. Differences in exchange rates resulted in a loss of EUR 20,000 in the financial year, whereas in the previous financial year they

brought in a profit of nearly EUR 210.000. Result before tax decreased by EUR 10.9 million and showed a loss of EUR 1.7 million (a profit of MEUR 9.2).

Return on equity for the financial year was -1.7 per cent (8.0%), and earnings per share were EUR -0.43 (EUR 2.05). Equity per share was EUR 25.14 (EUR 26.57) and the Group's equity ratio was 55.2 per cent (58.0%).

Capital expenditure

Consolidated gross capital expenditure during the financial year totalled EUR 1.3 million (MEUR 1.9), accounting for 3 per cent (4%) of net turnover. Of the capital expenditure, 27 per cent was spent on the parent company's intangible assets, 43 per cent on the parent company's tangible assets, and 30 per cent on the subsidiaries' tangible assets. The most significant investments were in IT systems and the pelting centre established in the United States.

Personnel

During the financial year, the company employed 356 people (2016/2017: 351) on average. The majority of the personnel works in 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		
	2017/2018	2016/2017	2015/2016	2017/2018	2016/2017	2015/2016
Average number of personnel	272	271	293	356	351	383
- permanent staff	118	118	125	160	160	169
- fixed-term staff	154	153	168	196	191	214
Number of staff at the end of the financial year on 31 Oct	120	123	123	169	171	179

Share trade and share performance

The value of shares traded during the financial year totalled EUR 6.3 million and the volume was 474,000 shares, representing 18 per cent of the company's Series C shares. The highest price of the share during the financial year was EUR 15.99 and the lowest price EUR 8.34, with the average price being EUR 13.39. At the end of the financial year, the Series C share closed at EUR 8.52, while a year earlier, it closed at EUR 15.94. The market value of the shares totalled EUR 30.7 million (MEUR 56.9) at the end of the financial year.

Annual General Meeting

The Annual General Meeting of Saga Furs Oyj held on 19 April 2018 approved the financial statements for the financial year ending on 31 October 2017 and decided to distribute a dividend of EUR 1.00 per share and transfer EUR 720,000 to the counter-cyclical budgetary fund. The dividend was paid out on 30 April 2018.

The General Meeting authorised the Board of Directors to decide on a share issue based on the disposal of treasury shares. The authorisation concerned a maximum of 1,630 Series A shares and 61,458 Series C shares, representing approximately 1.76 per cent of the company's total number of shares. Based on the authorisation, the Board of Directors may decide on a directed share issue, and the authorisation can be used in one or more rounds.

The General Meeting held on 19 April 2018 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 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-Iikka** as the auditor with principal responsibility.

Business risks and uncertainties

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

The risks associated with Saga Furs Oyj's business are divided into business and strategy risks, financial risks and other risks. As the operating environment is changing, 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, financial performance and value of the company. Also other risks that are not currently considered to be significant or the company is not currently aware of may become significant.

Most significant business and strategy risks

Failure to foresee changes in the operating environment and in strategic choices could result in impaired competitiveness, market share or profitability. The fur trade is sensitive to cyclical fluctuations, and a downturn in the global economy could lead to weakened market situation and increased competition. Any overproduction of fur pelts would accelerate the development. The economic or political situation of individual countries, as well as saturation of an individual market area, could have a significant impact on Saga Furs' business. A change in the resale network of a major market area, and new operators, unfamiliar with the fur trade, entering the industry could affect the company's business. The impact would be particularly severe should one of the above-mentioned things take place in the company's most important market, China.

Stronger-than-expected decline in the fashion and textile industry's fur sales and use of fur in general or long-term weakness could lead to decreasing business volume and delays in pelt sales. This would also further impair the availability of financing in the fur trade.

Decline in the Finnish production could lead to difficulties in providing services related to fur value chain. Digitalisation and new competing business models could have a major impact on the company's customer base, and losing important producer-customers could affect its business. The viability of business could also be impaired by a significant improvement in the quality of a competing production area's pelts, which could have an impact on the demand in the company's auctions.

Saga Furs operates internationally, and the industry is affected by various local laws and regulations. Amendments to regulations 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 protectionism could result in a more challenging market environment.

Saga Furs has a strong brand and trademark. However, challenges related to the image of the company and the industry could have an impact on the company's business and financial performance. Animal well-being and health play a key role in responsibility work, certification and pelt quality, all of which are part of the company's brand. The realisation of these risks could impair the company's operations.

Most significant financial risks

Information about financial risks is presented in Note 25 to the financial statements.

Most significant other risks

Major accidents in the company's production facilities, such as fires, machine breakdowns or severe defects in information systems could interrupt the company's business activities. The company has prepared

continuity plans in case of the realisation of these risks. Property risks are primarily covered through indemnity insurance.

Main events after the end of the financial year

The first auction of the financial year 2018/2019 was held on 17–18 December 2018. Auctioned items included 280,000 fox (12/2017: 300,000), 35,000 Finnraccoon pelts (30,000), 230,000 Karakul lamb pelts (300,000) and, for the first time in many years, 17,000 farmed sable pelts. More than 200 buyers from key market areas attended the auction and the total value of brokerage sales came to EUR 20 million (12/2017: MEUR 18).

International fashion industry participated actively in the auction, and 96 per cent of the blue fox pelts were sold nearly at the price level of the September auction. However, the current price level does not cover the production costs of pelts. Prices of shadow fox fell slightly but are still higher than those of blue fox pelts. Over 80 per cent of other fox pelts were sold at stable or slightly declining prices. 99 per cent of Finnraccoon pelts were sold with the price level declining approximately 10 per cent compared to the September auction. The good news was that the sales were distributed among all market areas. The largest purchases of the auction were made by China and the European fashion industry while also South Korea, Turkey and Russia made significant purchases.

Estimate of business development in the current financial year

Fur is still in fashion and especially fox fur is used extensively in trimmings. However, the industry is facing image-related challenges in the Western markets, and fashion house announcements to ban fur have been played up by the media. Even though less fur is seen in fashion shows, its position is still strong in collections. Saga Furs' years-long work towards sustainable fur farming and collaboration with international fashion houses are in key role in winning and maintaining the trust of designers and consumers.

In the company's main market area, China, the economy has been showing clear signs of slowing down. China is going through a transitional phase as it is transforming from an industry and export-based economy to service and consumption-based. Tensions between China and the United States along with impending trade war and rising customs increase uncertainty in the market. Especially in China, the unsold garment inventories continue to be exceptionally large. These factors are expected to have a significant impact on the Chinese customers' purchase behaviour at auctions in the current financial year.

The recovery of the Russian market continues. The country's economy has stabilised and the exchange rate of ruble has strengthened during this year. In Southern Russia, manufacturing of fur garments has continued to grow so that workforce and expertise is already recruited outside Russia, from Greece and even China. South Korean customers have increased the volume of their purchases from Saga Furs for several years already. During the retail season ending soon, there has been more fur products in stores than during the previous year, and the positive trend in fox sales is expected to continue in South Korea also during the new season.

Due to overproduction, the profitability of mink production has been clearly lower than that of fox production for the past five years. Global mink production is estimated to have decreased by 20 per cent in 2018. In the first half of this decade, Chinese production grew faster than Western production but, in recent years, especially Chinese production has decreased substantially. Global fox production is expected to have remained unchanged in 2018 while Finnish blue fox production has decreased 15–20 per cent. The decreased mink and fox productions are expected to be reflected in the volumes on offer internationally during the new sales season, although earlier produced and stored pelts might become available in the market.

In addition to the December 2018 auction, Saga Furs Oyj will arrange auctions in March, June and September 2019. The company intends to offer over 8 million mink, 2 million fox, 160,000 Finnraccoon pelts and 400,000 Karakul lamb pelts in the sales season's auctions. The volumes include 800,000 mink and 300,000 fox pelts, already graded and carried over from the previous financial year. The March auction will be arranged in co-operation with the Canadian auction house Fur Harvesters Auction Inc.

Expenses per pelt are estimated to remain on the same level as the previous financial year. 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 brokerage 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 2018, the parent company's distributable funds were as follows:

– retained earnings	55 945 942,93
– result for the financial year	-1 865 886,87
– to be transferred to the counter-cyclical budgetary fund in accordance with the Articles of Association	<u>0,00</u>
	54 080 056,06

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.50 per share be paid to shareholders from the distributable funds for the financial year 1 November 2017–31 October 2018.

The proposed record date for dividend payment is 30 April 2019 and the payment date is 8 May 2019. All shares outstanding on the record date for dividend payout, apart from shares held by the parent company, are entitled to dividend for the financial year 2017/2018.

Consolidated statement of financial position, IFRS

EUR 1,000

ASSETS	31 Oct 2018	31 Oct 2017
Non-current assets		
Property, plant and equipment	32 730	35 162
Intangible assets	3 173	3 838
Available-for-sale investments	555	352
Long-term receivables	16 024	15 135
Non-current assets, total	52 481	54 487
Current assets		
Inventories	1 574	2 038
Interest-bearing receivables from buyers	22 014	25 493
Interest-bearing receivables from fur breeders	76 311	65 857
Non-interest-bearing receivables	20 240	33 415
Tax assets based on taxable income for the period	10	468
Cash and cash equivalents	3 423	3 223
Current assets, total	123 572	130 495
Total assets	176 053	184 982

SHAREHOLDERS' EQUITY AND LIABILITIES	31 Oct 2018	31 Oct 2017
Equity attributable to parent company's shareholders		
Share capital	7 200	7 200
Share premium account	254	254
Other funds	21 105	20 385
Translation difference	52	57
Retained earnings	60 322	66 093
Shareholders' equity, total	88 933	93 990
Non-current liabilities		
Deferred tax liabilities	1 914	2 329
Current liabilities		
Interest-bearing liabilities	58 542	49 356
Trade and other payables	26 608	39 221
Deferred taxes based on the taxable income	54	85
Current liabilities, total	85 205	88 662
Total liabilities	87 120	90 991
Total shareholders' equity and liabilities	176 053	184 982

Consolidated statement of comprehensive income

EUR 1,000	1 May 2018- 31 Oct 2018 6 mo	1 Nov 2017- 31 Oct 2018 12 mo	1 May 2017- 31 Oct 2017 6 mo	1 Nov 2016- 31 Oct 2017 12 mo
Continuous operations				
Net turnover	22 783	45 746	25 009	52 730
Other operating income	211	532	344	794
Materials and supplies	-1 543	-2 794	-865	-2 216
Employee benefits	-7 108	-18 991	-7 582	-18 916
Depreciation and impairment loss	-2 110	-4 172	-2 250	-4 569
Other operating expenses	-12 112	-24 783	-10 222	-22 050
Operating result	120	-4 462	4 434	5 774
Financial income	1 719	4 206	2 330	5 132
Financial expenses	-683	-1 480	-1 027	-1 728
Result before tax	1 155	-1 736	5 737	9 178
Income tax	247	227	-1 165	-1 922
Net result for the reporting period	1 403	-1 509	4 572	7 256
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Translation differences	0	-10	0	0
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	0	-10	0	0
Total comprehensive income/expense	1 403	-1 520	4 572	7 255
Earnings per share, EUR, basic (EUR) *)	0,40	-0,43	1,29	2,05
*) There are no factors diluting the key performance indicator				

Consolidated statement of cash flows

EUR 1.000	1 Nov 2017- 31 Oct 2018	1 Nov 2016- 31 Oct 2017
	12 mo	12 mo
<i>Cash flow from operating activities</i>		
Payments received for selling on commission	321 534	470 175
Cash received from other operating income	374	415
Cash paid for other operating expenses	-334 876	-431 729
Cash flow from operating activities before financial items and taxes	-12 968	38 860
Interests, paid	-866	-914
Other financial expenses	-540	-535
Interest, received	4 335	4 384
Other financial income	32	275
Direct taxes paid	240	-1 674
Net cash flow from operating activities (A)	-9 766	40 396
<i>Cash flow from investment activities</i>		
Investments in tangible and intangible assets	-1 108	-1 931
Proceeds from sale of tangible and intangible assets	64	167
Investments in other assets	-203	0
Net cash flow from investments activities (B)	-1 246	-1 764
<i>Cash flow from financing activities</i>		
Proceeds from short-term borrowings	15 103	0
Re-payments of short-term borrowings	-261	-45 547
Dividends paid	-3 630	-1 678
Net cash flow from financing activities (C)	11 212	-47 225
Change in cash flows (A+B+C) increase (+) / decrease (-)	200	-8 592
Cash and cash equivalents, 31 Oct	3 423	3 223
./. Cash and cash equivalents, 1 Nov	3 223	11 815
Net change in cash and cash equivalents	200	-8 592

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
Transfer to counter-cyclical budgetary fund							0		0
Shareholders' equity, 31 Oct 2017	7 200	254	20 385	57	0	66 093	93 990	0	93 990

Consolidated statement of changes in shareholders' equity 1.11.2017-31.10.2018

Shareholders' equity, 1 Nov 2017	7 200	254	20 385	57	0	66 093	93 990	0	93 990
Result for the reporting period						-1 509	-1 509		-1 509
Other comprehensive income/expense				-6		-5	-10		-10
Dividend						-3 537	-3 537		-3 537
Transfer to counter-cyclical budgetary fund			720			-720	0		0
Shareholders' equity, 31 Oct 2018	7 200	254	21 105	52	0	60 322	88 933	0	88 933

Key performance indicators

	2017/2018	2016/2017
	12 mo	12 mo
Total brokerage sales, EUR 1,000	314 449	437 143
Net turnover, EUR 1,000	45 746	52 730
Operating profit/loss, EUR 1,000	-4 462	5 774
% of net turnover	-9,8%	11,0 %
Profit before taxes, EUR 1,000	-1 736	9 178
% of net turnover	-3,8 %	17,4 %
Earnings per share, EUR	-0,43	2,05
Equity per share, EUR	25,14	26,57
Return on equity (ROE)-%	-1,7 %	8,0 %
Return on investment (ROI)-%	-0,5 %	6,4 %
Equity-to-assets ratio, %	55,2 %	58,0 %
Gearing	0,62	0,49
Gross capital expenditure, EUR 1,000	1 311	1 931
% of net turnover	2,9 %	3,7 %
Average number of personnel	356	351

Principles for calculating key performance indicators:

Return on equity (ROE)-%	= Net result for the financial period x 100 / shareholders' equity *)
Return on investment (ROI)-%	= (Result 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	= Net result 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 2018

31 Oct 2017

Mortgages given and receivables pledged in security for debt

Loans from financial institutions	35 946	20 842
Mortgages on property	54 071	54 071
Mortgages on company assets	2 691	2 691
Pledges given	791	791

Derivative contracts

Forward exchange agreements	4 715	7 602
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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 -1.207.003 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 1.825.235 and the last year of inspection is 2027.

Related Party Transactions

EUR 1,000	2017/2018 12 mo	2016/2017 12 mo
Transactions with related parties:		
<i>Net turnover</i>		
- parent company	2	5
- other related party	436	489
<i>Other operating income</i>		
- parent company	43	46
<i>Purchase of materials and supplies</i>		
- other related party	-31	-6
<i>Other operating expenses</i>		
- parent company	0	-18
<i>Financial income</i>		
- other related party	45	27
<i>Financial expenses</i>		
- parent company	-3	-5
- other related party	-1	-2
<i>Related party receivables</i>		
- other related party	975	987
<i>Related party liabilities</i>		
- parent company	-1 319	-1 691
- other related party	-1 167	-944

Management compensation

Remuneration and other short-term employee benefits	1 526	1 476
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Management consists of the Board of Directors, the Managing Director, the Managing Director's Deputy and the rest of the groups Management Group.

Vantaa, 23 January 2019

SAGA FURS OYJ
Board of Directors