



Financial Statements Bulletin

1 November 2018–31 October 2019

28 January 2020

SAGA FURS OYJ

FINANCIAL STATEMENTS BULLETIN FOR THE FINANCIAL YEAR 1 NOVEMBER 2018–31 OCTOBER 2019

The result for the financial year 2018/2019 improved, but remained negative

- Saga Furs Oyj's total value of brokerage sales in the financial year 1 November 2018–31 October 2019 decreased by 6 per cent and amounted to EUR 297 million (MEUR 314 in 2017/2018).
- The price level of mink pelts in EUR decreased by 6 per cent and the price level of fox pelts increased by 2 per cent from the previous financial year.
- The number of pelts sold decreased by 5 per cent and amounted to 8.8 million pelts (9.3 million).
- Consolidated net turnover decreased by 2 per cent, amounting to EUR 44.7 million (MEUR 45.7).
- Consolidated operating profit increased by EUR 2.1 million despite the decline in net turnover. Nevertheless, it showed a loss of EUR 2.4 million (MEUR -4.5).
- Consolidated net financial income declined by 38 per cent, totalling EUR 1.7 million (MEUR 2.7).
- Profit/loss before tax increased by EUR 1 million, showing a loss of EUR 0.7 million (MEUR -1.7).
- Consolidated earnings per share were EUR -0.19 (EUR -0.43 in the previous financial year).
- The Board of Directors will propose to the Annual General Meeting, convening on 29 April 2020, that a dividend of EUR 0.50 per share be paid to shareholders from the distributable funds for the financial year 1 November 2018–31 October 2019.

Brokerage sales and net turnover increased in the second half of the year from the comparable period

- The total value of brokerage sales in the financial half-year 1 May 2019–31 October 2019 increased by 9 per cent and amounted to EUR 170 million (MEUR 156 in 2017/2018).
- Consolidated net turnover rose by 5 per cent, amounting to EUR 24 million (MEUR 23 million).
- Consolidated operating profit increased to EUR 1.5 million (MEUR 0.1).
- Profit/loss before tax decreased to EUR 1.1 million (MEUR 1.2 million).

Consolidated key figures	5/19–10/19	11/18–10/19	5/18–10/18	11/17–10/18
	6 months	12 months	6 months	12 months
Value of brokerage sales, EUR million	170.2	296.9	155.9	314.4
Number of pelts sold, 1,000 pcs	5,573	8,830	5,364	9,341
Net turnover, EUR million	24.0	44.7	22.8	45.7
Operating profit/loss, EUR million	1.5	-2.4	0.1	-4.5
Profit/loss before tax, EUR million	1.1	-0.7	1.2	-1.7
Earnings per share, EUR	0.23	-0.19	0.40	-0.43
Return on equity (ROE), %	0.9%	-0.8%	1.6%	-1.7%
Return on investment (ROI), %	1.1%	0.2%	1.1%	-0.5%

Business overview

Throughout the financial year 1 November 2018–31 October 2019, Saga Furs' brokerage sales were marked by uncertainty due to an oversupply of pelts. This affected the price level of pelts as well as customer purchasing behaviour at auctions. Because of the uncertain market environment, pelts were purchased for immediate need only, and they were redeemed at an exceptionally rapid pace.

A total of 8.8 million pelts were sold at Saga Furs' auctions in the 2018/2019 financial year (2017/2018: 9.3 million). Of these, 6.5 million were mink pelts, 2 million fox pelts, 120,000 Karakul lambskins and 160,000 Finn raccoon pelts. Similar to the previous season, a considerable number of mink pelts were carried over for sale in the next financial year. The value of the Group's brokerage sales was EUR 297 million (MEUR 314) and net turnover totalled EUR 44.7 million (MEUR 45.7).

The Chair of Saga Furs' Board of Directors changed in February, as Jorma Kauppi stepped down from the position due to personal reasons. The Board of Directors appointed Kenneth Ingman as Chair until the Annual General

Meeting held in April. Following the AGM, Jari Isoaari was elected Chair and Kenneth Ingman Deputy Chair of the Board of Directors at the first meeting of the Board.

Saga Furs continued to implement its strategy, renewed in the 2017/2018 financial year. According to the new strategy, the cornerstones of the company's operations include maximising the value of producer customers' production, ensuring the demand for Finnish responsibly produced fur and pioneering responsible fur production and the utilisation of digitalisation. The company also continued its programme aimed at enhancing logistics and grading and at improving quality. The programme is part of the revised strategy.

In cooperation with the Finnish Fur Breeders' Association (FIFUR), Saga Furs carried out an operational programme to develop Finnish responsible fur production. The WelFur assessments, measuring animal well-being by several indicators, were continued during the financial year, the goal being to ensure that as many farms as possible would satisfy the requirements to pass the audits and achieve a WelFur certificate by November 2019. Since December 2019, all jointly graded pelts offered at Saga Furs' auctions originate from WelFur-certified farms.

Saga Furs continued its efforts to increase the use of sustainably produced fur in collections. Once again, the Fur Vision events aimed at fashion designers reached a large number of professionals in the fashion capitals of the world. The strategic Fox2Shop project helped Saga Furs expand its international partner network and launch new collaboration projects. The provision of courses continued at the Haining university branch campus, established by Saga Furs together with Beijing Institute of Fashion Technology (BIFT), a leading Chinese art and design school, and Haining China Leather City (HCLC).

In late October, Saga Furs announced it had signed an agreement with North American Fur Auctions Inc. (NAFA). The agreement ensures NAFA's former producer customers in Europe and North America a strong sales channel at Saga Furs' auctions. It will also considerably boost Saga Furs' market share in high-quality mink pelts in the 2019/2020 financial year. In this connection, Saga Furs signed an agreement on the exclusive right to use the Blackglama label to market its high-quality black mink. Most North American mink pelts are offered as part of their own collection, and they are graded by the grading centre operating in Wisconsin, USA.

In October, Saga Furs announced its decision to build a new product development centre in connection with its headquarters in Vantaa for the purpose of arranging workshops and seminars. Known as Design Centre, the development facilities have been located in Copenhagen since 1988. A smaller creative workshop will remain there after the move. The transfer is expected to result in financial

and operational synergies. The new Design Centre will be opened in 2020.

Brokerage sales

Financial half-year 1 May–31 October 2019

On 10–17 June 2019, Saga Furs Oyj held an auction with 4 million mink, 615,000 fox and 37,000 Finn raccoon pelts on offer. China was a major player at the auction, but large volumes were also sold to the European fashion industry as well as to South Korea, Russia and Turkey. The price level for fox pelts was much the same as that recorded at Saga Furs' auction in March, and over 90 per cent of the pelts on offer were sold. Market uncertainties affected the sale of mink pelts, and Saga Furs decided to leave part of the pelts unsold to defend the price levels. Around 70 per cent of the mink pelts were sold at a price level slightly lower than that achieved at Saga Furs' auction in March. Some 450 buyers participated in the auction, and the value of brokerage sales totalled EUR 100 million (6/2018: MEUR 106).

Saga Furs organised its last auction of the 2018/2019 financial year on 15–20 September 2019, where 1.7 million mink, 580,000 fox and 38,000 Finn raccoon pelts were offered. The September auction differed from the previous auctions in that a substantial portion of the selection consisted of spring pelts and other pelts belonging to lower quality grades. Some normal-quality pelts were also on offer. Around 95 per cent of the fox and Finn raccoon pelts were sold. The price level for mink remained unchanged from June, while the price level for blue fox, important to Finnish farmers, increased. Nearly 400 buyers participated in the auction, and the value of brokerage sales totalled EUR 70 million (9/2018: MEUR 49).

Financial year 1 November 2018–31 October 2019

Saga Furs sold 6.5 million mink pelts (2018/2019: 6.9 million), 2 million fox pelts (2.1 million) and 160,000 Finn raccoon pelts (150,000) during the financial year. Similar to the previous financial year, a considerable number of mink pelts were carried over for sale in the next financial year. Mainly due to the decline in the amount of pelts sold, the value of brokerage sales decreased by 6 per cent year-on-year, totalling EUR 297 million (MEUR 314).

The value of brokerage sales by auction

Auction	Brokerage sales		Brokerage sales		Brokerage sales	
	1,000 pelts 2018/2019	Value EUR 1,000 2018/2019	1,000 pelts 2017/2018	Value EUR 1,000 2017/2018	1,000 pelts 2016/2017	Value EUR 1,000 2016/2017
December	320	19,602	294	18,333	483	32,622
March	2,919	106,722	3,676	139,930	4,077	188,941
June	3,347	99,498	3,570	105,976	3,330	120,309
September	2,211	69,697	1,767	48,795	2,241	92,101
Warehouse sales in the financial year	34	1,335	34	1,415	47	3,170
Total	8,830	296,854	9,341	314,449	10,178	437,143

Net turnover

Financial half-year 1 May–31 October 2019

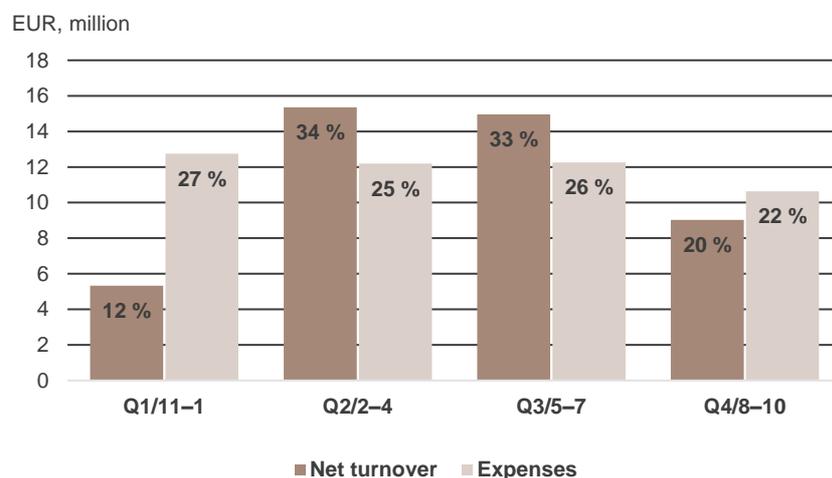
The value of the Group's brokerage sales increased by 10 per cent year-on-year, totalling EUR 170 million (MEUR 156). Consolidated net turnover increased by 5 per cent, amounting to EUR 24 million (MEUR 22.8).

Other operating income of the Group amounted to EUR 356,000 (EUR 210,000) in the second half of the financial year.

Financial year 1 November 2018–31 October 2019

Consolidated net turnover decreased by 2 per cent year-on-year, amounting to EUR 44.7 million (MEUR 45.7). Most of the net turnover, 89 per cent (89%), consisted of commission fees collected for pelt trading. The commission fees from producers accounted for 31 per cent (31%) and the commission fees from buyers for 59 per cent (58%) of the consolidated net turnover. The remainder was generated from sales of pelting services to producers. The share of commission fees collected from Finnish customers, both producers and buyers, was 17 per cent (20%) and the share of commission fees collected from international customers was 72 per cent (69%). Other operating income increased by 43 per cent year-on-year and amounted to EUR 760,000 (EUR 530,000).

Quarterly net turnover and expenses
2018/2019



Financial performance

Financial half-year 1 May–31 October 2019

Operating expenses remained at the previous year's level, at EUR 22.9 million (MEUR 22.9). Owing to the increase in net turnover, consolidated operating profit improved, amounting to EUR 1.5 million (MEUR 0.1). Net financial income decreased to EUR -0.3 million (MEUR 1 million). Consolidated profit stood at EUR 0.8 million (MEUR 1.4) in the second half of the financial year. Return on equity was 0.9 per cent (1.6%), with earnings per share amounting to EUR 0.23 (0.40).

Financial year 1 November 2018–31 October 2019

Operating expenses decreased by 6 per cent year-on-year to EUR 47.8 million (MEUR 50.7).

The official figures for the previous financial year have been used as comparatives, and the impact of the IFRS 9 and 15 standards on operating expenses or financial expenses have not been taken into account. Their overall impact is presented in the notes to the financial statements under "Application of the new and revised IFRS standards". Personnel expenses accounted for 39 per cent and other operating expenses for 48 per cent of the operating expenses. Personnel expenses remained on the same level as the previous financial year and totalled EUR 18.8 million (MEUR 19). 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 increased by 6 per cent, totalling EUR 2.8 million (MEUR 2.6). Credit

losses recorded for receivables from buyers were minor, totalling EUR 73,000 (MEUR 2).

Consolidated operating profit increased by EUR 2.1 million despite the decline in net turnover. Nevertheless, it showed a loss of EUR 2.4 million (MEUR -4.5).

Consolidated net financial income declined by 38 per cent, totalling EUR 1.7 million (MEUR 2.7), despite net interest income increasing by 32 per cent to EUR 4.3 million (MEUR 3.2). In the prevailing market situation, fur production has been unprofitable for producers for several years, increasing the risks related to receivables from producers. Credit losses totalling EUR 2.6 million (MEUR 0.4) were recorded for receivables from producers, after three large producers were declared bankrupt. Profit/loss before tax increased by EUR 1 million, showing a loss of EUR 0.7 million (MEUR -1.7).

Return on equity for the financial year was -0.8 per cent (-1.7%), and earnings per share were EUR -0.19 (EUR -0.43). Equity per share was EUR 24.38 (EUR 25.14) and the Group's equity ratio was 55.1 per cent (55.2%).

Personnel

	Parent company			Group		
	2018/2019	2017/2018	2016/2017	2018/2019	2017/2018	2016/2017
Average number of personnel	265	272	271	345	356	351
- permanent	120	118	118	160	160	160
- fixed-term	145	154	153	185	196	191
Personnel at the end of the financial year, 31 October	125	120	123	173	169	171

Share trade and share performance

The value of shares traded during the financial year totalled EUR 3.3 million and the volume was 343,000 shares, representing 18 per cent of the company's Series C shares. The highest price of the share during the financial year was EUR 13.55 and the lowest price EUR 7.12, with the average price being EUR 9.69.

At the end of the financial year, the Series C share closed at EUR 10.80, while a year earlier, it closed at EUR 8.52. The market value totalled EUR 38.8 million (MEUR 30.7) at the end of the financial year, on 31 October.

General Meeting

The Annual General Meeting of Saga Furs Oyj held on 26 April 2019 approved the financial statements for the financial year ending on 31 October 2018 and decided to distribute a dividend of EUR 0.50/share. The dividend was paid out on 8 May 2019.

The General Meeting decided that the number of the members of the Board of Directors is eight. Fur breeders Kenneth Ingman, Jari Isosaari, Lasse Joensuu, 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

Capital expenditure

Consolidated gross capital expenditure during the financial period totalled EUR 0.9 million (MEUR 1.1), representing 2 per cent (2.3%) of net turnover. Of the capital expenditure, 29 per cent was spent on the parent company's intangible assets, 53 per cent on the parent company's tangible assets and 17 per cent on the subsidiaries' tangible assets. The most significant investments were made in warehouse and grading equipment.

Personnel

During the financial year, the company employed 345 people (2017/2018: 356) on average. The majority of the personnel works with tasks related to the handling of fur pelts. The number of permanent staff averaged 160 (160) and fixed-term employees 185 (196). The personnel was at its largest in March 2019, when the Group employed 607 people (3/2018: 624).

run until the next General Meeting. Following the General Meeting, Jari Isosaari was elected Chair and Kenneth Ingman Deputy Chair of the Board of Directors at the first meeting of the Board. The General Meeting elected KPMG Oy Ab as the company's auditor, with Jukka Rajala, Authorised Public Accountant, 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 risks associated with Saga Furs Oyj's business are divided into business and strategy risks, financial risks and operational 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 and financial position of the company and weaken its financial performance or value. Other risks that are not currently considered to be significant or that the company is not currently aware of may also become significant.

The company operates in a cyclical industry, and it takes time before responses to changes become visible. The demand for fur is not steady throughout the year, since fur is primarily used during the winter season. Prices may fluctuate greatly, depending on the demand at the time of auction and on global production volumes. Being

an important operator, Saga Furs aims to level out price fluctuations by moving products for sale at following auctions.

Most significant business and strategy risks

Failure to foresee changes in the operating environment and in strategic choices could impair the company's competitiveness or profitability and reduce its market share. The fur trade is sensitive to cyclical fluctuations, and a downturn in the global economy could lead to a weaker market situation and increased competition. Any overproduction of fur pelts would accelerate the development. Changes in the economic or political situation of individual countries, as well as saturation of an individual market area or other considerable change in the company's operating environment 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.

A stronger-than-expected decline in the fashion and textile industry's fur sales and use of fur in general or a long-term weakness following from, for example, changes in consumer demand could lead to a decreasing business volume and delays in pelt sales. What is more, this would further reduce the availability of financing in the fur trade.

A decline in Finnish production could hamper the business of service providers in the fur value chain and weaken regional employment. 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 as well as the cost level in different areas. Changes in these fields 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 on free trade, changes in the geopolitical situation or stronger protectionist measures could result in a more challenging market environment.

Saga Furs has a strong reputation 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 and sustainability measures, 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

The Group's financial risks mainly involve producer financing and receivables from buyers. Information about financial risks is presented in Note 25 to the financial statements.

Operational and 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 contingency plans in case of the realisation of these risks, and its business is insured in this respect.

Main events after the end of the financial year

Saga Furs held its first auction of the financial year 1 November 2019–31 October 2020 on 19–20 December 2019. Approximately 246,000 fox and 34,000 Finn raccoon pelts were on offer. Slightly over half of the pelts were sold, and the price level declined around 5 per cent. As is typical of December auctions, the purchases were replenishment purchases. Most of them were done for the European fashion industry and South Korea. A warm early winter and the economic slowdown in China, the main market for blue fox, had an impact on auction sales. Some 200 buyers participated in the auction, and the value of brokerage sales totalled EUR 12 million (12/2018: MEUR 20).

In November 2019, Saga Furs Oyj established a subsidiary, Saga Furs North America Inc., in the US to handle the collection and grading of North American mink pelts. The new company leased the grading facilities formerly used by North American Fur Auctions Inc. in Wisconsin.

Estimate of market development in the main market areas

Fur continues to be fashionable, and fox fur is used extensively in trimming. Saga Furs' years-long sustainability programme and extensive collaboration with international fashion houses are in a key role in winning and maintaining the trust of designers and consumers. In the current sales season, all of the company's Saga mink, fox and Finn raccoon pelts will come from Welfur-certified farms, which will further boost the company's position as a leading trading venue for sustainably produced pelts.

China is the main market for both mink and fox pelts: approximately 75 per cent of the mink pelts and just under 70 per cent of the fox pelts sold by Saga Furs went to Chinese buyers in the 2018/2019 financial year. Other major markets areas for pelts include South Korea, Russia and the fashion markets in Western Europe and North America. Retail sales of fur garments and trimmings are down from the previous year due to the warm early winter and the economic development in all main market areas.

The trade war with the US and the ensuing rise in import tariffs have caused uncertainty among consumers, slowing economic growth in China as well as development in the fur garment market. China's economic growth slowed to 6.1 per cent in 2019 and is expected to remain relatively low in 2020. If China's currency, the yuan, weakens, it would lead to a decline in the pelt prices in euros. A weaker currency would further erode the purchasing power of Chinese consumers.

Saga Furs' Chinese customers have quickly adjusted their business to the prevailing market conditions and changes in consumer demand. For example, online trade in fur garments is seeing strong growth. Garments are adapted for many different consumer segments based on the price, style and materials used and the production of traditional mink coats has been reduced. Mink is popularly used for accessories, trimmings and linings. Low mink prices have encouraged manufacturers to use high-quality pelts for reversible garments and other new products. Finnish fox pelts are used increasingly for trimmings, but their demand reacts quickly to changes in the price level. Fox pelts for trimmings sold well up to the September auction and the price rise experienced there, but slowed down after that. The Chinese stocks of unsold winter garments, including fur and fur-trimmed garments, are large considering the time of the year. These aspects are expected to influence Chinese customers' purchase behaviour at

auctions, especially at those held at the beginning of the season.

In the South Korean market, the weather, economic situation and the political climate have had a negative impact on retail sales. Price competition has led manufacturers to considerably reduce the production of mink garments. However, the demand for fox pelts used as trimmings for down coats, for example, has continued to be strong. South Korean customers have increased the volume of their purchases from Saga Furs for several years. The company's auctions are becoming the main source of material for South Korean customers, as more and more North American mink pelts become available.

The Russian market is picking up, but development is slow, even though some of the traditional fur businesses have been forced to close down. The stronger rouble has boosted consumer purchasing power. The volume of mink pelts sold to the Russian market at Saga Furs' auctions is growing steadily, as is the sale of fox pelts for trimmings. Russia's own production of fur garments has also increased. Turkey has again become a popular place for Russian tourists to purchase fur-trimmed garments.

mink farming has been very poor for years. As a result, Saga Furs expects the decline in mink pelt production to continue in 2020. The company believes that the production and offer of fox pelts will remain stable in Finland, despite the weak profitability of farming.

In addition to the December 2019 auction, Saga Furs Oyj will arrange auctions in March, June and September 2020. The company expects its market position to remain strong, estimates that its auctions will offer nearly 12 million mink, 2 million fox and 160,000 Finn raccoon pelts. These volumes include the previously graded 690,000 mink pelts and 240,000 fox pelts which were carried over from the previous financial year. The volume of mink pelts is the largest ever in the company's history, reflecting the strong growth in Saga Furs' market share in Europe and North America.

Expenses per pelt are expected to decrease slightly year-on-year, since the larger volume of pelts will improve the efficiency of operations. The company's volume of financing is expected to increase notably, as the growing volume of pelts sold by Saga Furs will increase both producer and buyer financing. Owing to the poor profitability of farming, producer customers are expected to more frequently turn to financing provided by the company.

It is premature to estimate the sales of auctions in the 2019/2020 financial year on the basis of the December 2019 auction. Thanks to the clearly growing volume of mink pelts, the value and net turnover of brokerage sales are expected to increase. The profit/loss for the financial period will depend on the sales results of the upcoming auctions, which, in the current market situation, are impossible to forecast.

Business outlook

In 2019, mink pelt production decreased by some 25 per cent year-on-year in Europe and North America. However, owing to the weak retail season, the volume of pelts offered on the market is likely to remain excessive in view of the present demand. Moreover, the profitability of

The Board of Directors' proposal for the distribution of profit

On 31 October 2019, the parent company's distributable funds were as follows:

- retained earnings	52,311,600.06
- profit/loss for the financial year	-989,510.29
- to be transferred to the counter-cyclical budgetary fund in accordance with the Articles of Association	0.00
	51,322,089.77

The Board of Directors will propose to the 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 2018–31 October 2019.

The proposed record date for dividend payment is 4 May 2020 and the payment date is 11 May 2020. All shares outstanding on the record date for dividend payout, apart from shares held by the parent company, are entitled to a dividend for the financial year 2018/2019.

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 at www.saga-furs.com by 30 January 2020 at 16:00. The financial statements bulletin was prepared in accordance with IAS 34 Interim Financial Reporting.

IFRS 9 Financial Instruments provides new guidelines for the classification and measurement of financial instruments as well as a new model based on expected credit losses for calculating the impairment loss of financial assets. The standard was adopted prospectively, taking advantage of the relevant transitional provisions. Following the adoption of IFRS 9, a credit loss provision was recognised for receivables whose value exceeds the value of pelts deposited as collateral with the Group or the value of other collateral. The Group has previously analysed its risk related to receivables, but has not recognised a general credit loss provision. Transitional adjustments reduced equity in the 2018 opening balance sheet by 689,000 euros regarding receivables from producers and by 670,000 euros regarding receivables from buyers.

The new guidelines on the impairment of financial assets changed the way in which the Group measures credit loss risk and the size of risk. Instead of the previous model based on realised credit losses it now applies the new model based on expected credit losses. The Group applies the general credit loss model for all its receivables. The new credit loss model for producer and buyer receivables includes two credit risk components. The first of these is based on an analysis made by the risk category of receivables, where the expected credit losses of risk categories are derived from historical credit losses. The second credit risk component is based on an analysis of individual receivables or groups of receivables. The resulting information is used to recognise an additional impairment, exceeding the first credit risk component, for the receivable or group of receivables.

IFRS 15 Revenue from Contracts with Customers includes comprehensive guidelines on the nature, amount and timing of recognised revenue. The relevant

transitional provisions were applied when adopting the standard. The most significant impact on the consolidated income statement comes from the costs of complying with a contract in situations where pelts graded in the reporting period remain unsold and are carried over to be sold in later reporting periods. The Group has allocated the personnel and transport expenses related to the grading of unsold pelts to future periods. The transitional adjustments resulting from the adoption of IFRS 15 increase shareholders' equity by EUR 1.1 million and deferred tax liabilities by EUR 280,000.

In line with the transitional provisions of IFRS 9 and IFRS 15, Saga Furs Oyj has not adjusted the comparatives for the previous years.

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, 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 concession 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 and other leases, included in the operating leases. The change will also affect the income statement structure as the income statement will include depreciated assets and interest expenditure on lease liabilities, instead of leasing expenses under other operating expenses. In the consolidated financial statements of 31 October 2019, lease liabilities amounted to EUR 7 million. Since lease liabilities are now measured at present value, the amount of lease liabilities recognised at the time of transition is not directly comparable with the previously recognised liabilities. The Group does not expect the adoption of IFRS 16 to result in material changes in its key figures.

Consolidated statement of financial position, IFRS

EUR 1,000

ASSETS	31 Oct 2019	31 Oct 2018
Non-current assets		
Tangible assets	30,111	32,730
Intangible assets	2,718	3,173
Other investments	358	555
Non-current receivables	8,508	16,024
Non-current assets, total	41,695	52,481
Current assets		
Inventories	1,288	1,574
Interest-bearing receivables from buyers	21,292	22,014
Interest-bearing receivables from fur breeders	87,639	76,311
Non-interest-bearing receivables	21,428	20,240
Current tax assets		
	37	10
Cash and cash equivalents	757	3,423
Current assets, total	132,440	123,572
Total assets	174,135	176,053
SHAREHOLDERS' EQUITY AND LIABILITIES	31 Oct 2019	31 Oct 2018
Equity attributable to parent company's shareholders		
Share capital	7,200	7,200
Share premium account	254	254
Other funds	21,105	21,105
Translation difference	50	52
Retained earnings	57,623	60,322
Shareholders' equity, total	86,233	88,933
Mandatory provisions	68	0
Non-current liabilities		
Deferred tax liabilities	1,593	1,914
Current liabilities		
Interest-bearing liabilities	59,992	58,542
Trade and other payables	26,081	26,608
Current tax liabilities		
	167	54
Current liabilities, total	86,240	85,205
Total liabilities	87,833	87,120
Total shareholders' equity and liabilities	174,135	176,053

Consolidated statement of comprehensive income

EUR 1,000	1 May 2019– 31 Oct 2019 6 months	1 Nov 2018– 31 Oct 2019 12 months	1 May 2018 31 Oct 2018 6 months	1 Nov 2017– 31 Oct 2018 12 months
Continuous operations				
Net turnover	23,991	44,677	22,783	45,746
Other operating income	356	758	211	532
Materials and supplies	-1,379	-2,385	-1,543	-2,794
Employee benefits	-9,015	-18,761	-7,108	-18,991
Depreciation and impairment losses	-1,824	-3,825	-2,110	-4,172
Other operating expenses	-10,667	-22,851	-12,112	-24,783
Operating profit/loss	1,462	-2,386	120	-4,462
Financial income	2,631	5,218	1,719	4,206
Financial expenses	-2,970	-3,536	-683	-1,480
Profit/loss before tax	1,124	-705	1,155	-1,736
Income tax	-324	25	247	227
Net profit/loss for the reporting period	800	-680	1,403	-1,509
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss				
Translation differences		-6		-10
Other comprehensive income, net of tax	0	-6	0	-10
Total comprehensive income/expense	800	-687	1,403	-1,520
Earnings per share, EUR, basic (EUR) *)	0.23	-0.19	0.40	-0.43
*) There are no factors diluting the key performance indicator				

Consolidated statement of cash flows

EUR 1,000	1 Nov 2018– 31 Oct 2019	1 Nov 2017– 31 Oct 2018
<i>Cash flow from operating activities</i>		
Payments received for selling on commission	305,877	321,534
Cash received from other operating income	471	374
Cash paid for operating expenses	-310,541	-334,876
Cash flow from operating activities before financial items and tax	-4,192	-12,968
Interest paid for financial expenses	-446	-866
Cash paid for other financial expenses	-2,745	-540
Interest, received	4,964	4,335
Other financial income	169	32
Direct taxes paid	-211	240
Net cash flow from operating activities (A)	-2,461	-9,766
<i>Cash flow from investing activities</i>		
Investments in tangible and intangible assets	-880	-1,108
Proceeds from sale of tangible and intangible assets	204	64
Investments in other assets	-3	-203
Proceeds from investments in other assets	246	0
Net cash flow from investing activities (B)	-433	-1,246
<i>Cash flow from financing activities</i>		
Proceeds from short-term borrowings	2,126	15,103
Re-payments of short-term borrowings	-130	-261
Dividends paid	-1,768	-3,630
Net cash flow from financing activities (C)	228	11,212
Change in cash flows (A+B+C) increase (+)/ decrease (-)	-2,666	200
Cash and cash equivalents, 31 Oct	757	3,423
./. Cash and cash equivalents, 1 Nov	3,423	3,223
Net change in cash and cash equivalents	-2,666	200

**Consolidated statement of changes in shareholders' equity
1 November 2017–31 October 2018**

EUR 1,000	Share capital	Share premium account	Other funds	Translation difference	Fair value reserve	Retained earnings	Before minority interests	Minority interests	Total
Shareholders' equity, 1 Nov 2017	7,200	254	20,385	57	0	66,093	93,990	0	93,990
Profit/loss for the financial year						-1,509	-1,509		-1,509
Other comprehensive income				-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

**Consolidated statement of changes in shareholders' equity
1 November 2018–31 October 2019**

Shareholders' equity, 31 Oct 2018	7,200	254	21,105	52	0	60,322	88,933	0	88,933
Adoption of IFRS 9						-1,359	-1,359		-1,359
Adoption of IFRS 15						1,114	1,114		1,114
Shareholders' equity, 1 Nov 2018	7,200	254	21,105	52	0	60,077	88,688		88,688
Profit/loss for the financial year						-680	-680		-680
Other comprehensive income				-1		-5	-6		-6
Dividend						-1,768	-1,768		-1,768
Transfer to counter-cyclical budgetary fund							0		0
Shareholders' equity, 31 Oct 2019	7,200	254	21,105	50	0	57,623	86,233	0	86,233

Key performance indicators

	2018/2019	2017/2018
Total sales, EUR 1,000	296,854	314,449
Net turnover, EUR 1,000	44,677	45,746
Operating profit/loss, EUR 1,000	-2,386	-4,462
% of net turnover	-5.3%	-9.8%
Profit before taxes, EUR 1,000	-705	-1,736
% of net turnover	-1.6%	-3.8%
Earnings per share, EUR	-0.19	-0.43
Shareholders' equity per share, EUR	24.38	25.14
Return on equity (ROE), %	-0.8%	-1.7%
Return on investment (ROI), %	0.2%	-0.5%
Equity-to-assets ratio, %	55.1%	55.2%
Gearing	0.69	0.62
Gross capital expenditure, EUR 1,000	883	1,311
% of net turnover	2.0%	2.9%
Average number of personnel	345	356

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 shares outstanding
Shareholders' equity per share, EUR	= shareholders' equity/number of shares outstanding on balance sheet date

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

Commitments and contingencies

EUR 1,000	31 Oct 2019	31 Oct 2018
Mortgages given and receivables pledged in security for debt		
Loans from financial institutions	35,816	35,946
Mortgages on property	54,071	54,071
Mortgages on company assets	2,691	2,691
Pledges given	791	791
Derivative contracts		
Forward exchange agreements	0	4,715

Forward exchange agreements are not classified as hedges because the Group does not apply hedge accounting.

The Group's foreign exchange position at the end of the financial year is EUR -2,258,322.

Property investments

The Group is obliged to revise 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 1,559,729 and the last year of inspection is 2028.

Related Party Transactions

EUR 1,000	2018/2019 12 months	2017/2018 12 months
Transactions with related parties:		
<i>Net turnover</i>		
- parent company	4	2
- other related parties	353	436
<i>Other operating income</i>		
- parent company	43	43
<i>Purchase of materials and supplies</i>		
- other related parties	0	-31
<i>Other operating expenses</i>		
- parent company	-22	0
<i>Financial income</i>		
- other related parties	49	45
<i>Financial expenses</i>		
- parent company	-1	-3
- other related parties	-1	-1
<i>Related party receivables</i>		
- other related parties	1,169	975
<i>Related party liabilities</i>		
- parent company	-376	-1,319
- other related parties	-1,007	-1,167
Management compensation		
Remuneration and other short-term employee benefits	1,405	1,526

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, 28 January 2020

SAGA FURS OYJ
Board of Directors