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Interim Report  
1.11.2013-30.4.2014

**SAGA FURS OYJ**  
**INTERIM REPORT FOR 1 November 2013 to 30 April 2014**

Vantaa, 25 June 2014 at 13:30

**Result for the second quarter of Saga Furs Oyj's financial year shows a profit**

- As a result of the change in the company's financial year end date, the company's operations in the second quarter of the financial year differ substantially from before: in February–April, the focus of operations is not only on pelt grading but also on the main auction, which takes place in March, whereas in December–February, it was primarily on grading. The comparison details of the previous financial year have been changed so that they correspond with the interim report period.
- The value of sales for Saga Furs Oyj for the review period 1 February 2014 to 30 April 2014 decreased by 35 per cent, totalling EUR 238.5 million (368.0 MEUR) due to the decrease in pelt prices. The value of sales from November to April was EUR 272.3 million (511.5 MEUR).
- The company auctioned a total of 4.0 million pelts in the review period (3.7 MEUR). The number of pelts auctioned by the company between November and April was 4.5 million pelts (5.2 million pelts).
- The price level of mink pelts in EUR decreased by 50 per cent and the price level of fox pelts decreased by 23 per cent from the corresponding period last year.
- Consolidated net turnover decreased 27 per cent year-on-year, standing at EUR 20.9 million (28.8 MEUR). Net turnover for November–April was EUR 26.3 million (41.6 MEUR).
- Operating expenses totalling EUR 17.1 million (14.3 MEUR) grew in the review period by 20 per cent compared to the previous corresponding period as the result of credit losses recorded for receivables from buyers. Operating expenses for November–April totalled EUR 31.4 million (27.4 MEUR).
- Consolidated operating profit was EUR 4.0 million (14.6 MEUR) for the review period. The operating profit from November to April was EUR -4.9 million (+14.3 MEUR).
- Consolidated net financial income for the review period was EUR 1.0 million (1.3 MEUR), and profit before taxes was EUR 5.0 million (15.8 MEUR). Net financial income for November–April was EUR 1.9 million (2.4 MEUR), and profit before taxes was EUR -3.0 million (+16.7 MEUR).
- Earnings per share amounted to EUR 1.10 (3.32) for the review period and EUR -0.69 (+3.51) for November to April.
- Saga Furs Oyj and the North American auction companies American Legend and Fur Harvesters' agreed on long-term strategic cooperation in April. The sales cooperation started in March 2014, and it will continue in Vantaa Fur Center in the following years.

Consolidated key figures	2/14-4/14 3 mo	11/13-4/14 6 mo	2/13-4/13 3 mo	11/12-4/13 6 mo	9/12-10/13 14 mo
Total sales, MEUR	238,5	272,3	368,0	511,5	980,6
Total amount of skins sold, 1.000 pcs	3 963	4 459	3 661	5 240	10 277
Net turnover, MEUR	20,9	26,3	28,8	41,6	78,5
Operating profit/loss, MEUR	4,0	-4,9	14,6	14,3	24,9
Profit before taxes, MEUR	5,0	-3,0	15,8	16,7	29,7
Earnings per share, EUR	1,11	-0,69	3,32	3,51	6,20
Return on equity, (ROE) %	4,5 %	-2,8 %	14,6 %	14,9 %	25,6 %
Return on investment, (ROI) %	3,0 %	-1,6 %	11,3 %	11,8 %	22,6 %

### Accounting principles

This interim report was prepared in accordance with the IAS 34 Interim Financial Reporting.

On 1 November 2013, the Group adopted the following new or amended standards and interpretations, which have not had a significant effect on the interim report:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement

The new Securities Market Act no longer includes a requirement to present future prospects in interim reports. Future prospects are presented in the annual report in accordance with the Accounting Act. However, the company has decided to continue to present future prospects in its interim reports for the time being. Any changes to this practice will be communicated separately.

In other respects, this report has been prepared in accordance with the same accounting principles as the financial statements for 1 September 2012 to 31 October 2013. The information presented in this interim report is unaudited.

### Sales for the period 1 November 2013 to 30 April 2014

Saga Furs Oyj held one auction during the second quarter (1 February – 30 April 2014) from 11 to 21 March 2014. Saga Furs Oyj arranged the auction in cooperation with the North American auction houses American Legend and Fur Harvesters. In the uncertain market conditions, the joint auction was beneficial for all parties, as the collections complemented each other and nearly one thousand buyers participated in the auction. High prices were still paid for high-quality pelts, but the prices of pelts representing weaker quality decreased clearly from the previous selling season. A total of 3.1 million mink pelts (2.6 million at the corresponding auction in the previous year), 730,000 fox pelts (800,000), 110,000 Karakul lamb pelts (180,000) and 48,000 Finn raccoon pelts (54,000) were sold at the auction by Saga Furs Oyj. The value of sales was EUR 238 million (368 million).

Between November and April, a total of 3.3 million mink pelts (3.6 million), 780,000 million fox pelts (1.1 million), 300,000 Karakul lamb pelts (400,000) and 71,000 Finnraccoon pelts (82,000) were sold. Due to the decreased price level and the large number of pelts unsold in the December auction, the value of sales decreased by 47 per cent, totalling EUR 272 million (512 MEUR).

Auction	Sales 1,000 pelts 2013/2014	Value EUR 1,000 2013/2014	Sales 1,000 pelts 2012/2013	Value EUR 1,000 2012/2013
December	494	33 779	1 579	143 468
March	3 959	238 071	3 658	367 699
Warehouse sales	7	493	3	369
<b>Total</b>	<b>4 459</b>	<b>272 344</b>	<b>5 240</b>	<b>511 537</b>

## Financial performance

Consolidated net turnover in the second quarter of the financial year amounted to EUR 20.9 million (28.8 MEUR). Net turnover fell by 27 per cent on the previous corresponding review period due to the decreased pelt price level. Net turnover for November to April declined by 37 per cent year-on-year, totalling EUR 26.3 million (41.6 MEUR). Of the net turnover, 61 per cent was made up of commission fees collected from buyers, 16 per cent from those collected from producers and 20 per cent from sales of pelting services and animals.

Operating expenses increased 20 per cent during the second quarter compared with the previous corresponding period, amounting to EUR 17.1 million (14.3 MEUR). Personnel expenses rose clearly, because the number of mink received for the remaining season's auctions increased from last year, and the pelts unsold at the December auction increased handling costs. Other operating expenses increased, because the company recorded credit losses for receivables from buyers. Due to the steep decrease in pelt prices, a major customer of the company became insolvent, and the decrease in the pelts value exceeds the value of the collateral security received from this customer. The pelts deposited as collateral are measured at the market price but they have not been realised yet. The efficiency of international lobbying through IFF improved significantly, and the costs decreased by EUR 0.6 million. Operating expenses grew by 15 per cent between November and April, totalling EUR 31.4 million (27.4 MEUR).

Consolidated operating profit amounted to EUR 4.0 million (14.6 MEUR) for the second quarter of the financial year and EUR -4.9 million (14.3 MEUR) for November to April.

Consolidated net financial income decreased in the second quarter for the financial year and totalled EUR 1.0 million (1.3 MEUR). Net financial income for November to April was EUR 1.9 million (2.4 MEUR).

Profit before tax for the second quarter was EUR 5.0 million (15.8 MEUR) and loss for the period was EUR -2.5 million (12.6 MEUR). Return on equity for the second quarter

was 4.5 per cent (14.6 per cent), with earnings per share amounting to EUR 1.11 (3.32). The result for November–April was EUR -3.0 million (+16.7 EUR) before taxes and EUR -2.5 million (+12.6 EUR) after taxes. Return on equity for November–April was -2.8 per cent (14.9 per cent), with earnings per share amounting to EUR -0.69 (+3.51).

The Group's equity ratio at the end of the review period was 40.0 per cent (48.4 per cent at the end of April 2013, 57.1 per cent on the closing date of 31 October 2013). The Group's liquidity remained at a healthy level throughout the review period. The consolidated balance sheet total was EUR 235.2 million (190.1 MEUR on 31 April 2013, 174.7 MEUR on 31 October 2013). Equity per share was EUR 23.77 (EUR 24.43 on 30 April 2013, EUR 26.50 on 31 October 2013).

### **Capital expenditure and development**

Consolidated gross capital expenditure totalled EUR 4.3 million (2.9 MEUR) between November and April, equalling 17 per cent (7 per cent) of net turnover. Of the capital expenditure, 85 per cent was spent on tangible and 15 per cent on intangible assets. In January 2014, Saga Furs Oyj purchased the property rented by its subsidiary, the pelting company Furfix Oy, from a development company owned by the municipality of Kaustinen. In the review period, the expansion of the property was initiated in order to respond to the increasing demand for pelting services.

### **Shares and share performance**

Saga Furs Oyj's share capital totalled EUR 7,200,000 at the end of the review period and the number of shares stood at 3,600,000, of which 900,000 were Series A shares and 2,700,000 Series C shares.

The value of shares traded in November to April totalled EUR 26.1 million and the volume was 710,000 shares, representing 26 per cent of the company's Series C shares. The highest price of the share during the period was EUR 49.48 and the lowest price was EUR 27.50, with the average price being EUR 36.96. The shares closed at EUR 28.45. The company's market capitalisation stood at EUR 102.4 million on 30 April 2014.

A list of the company's largest shareholders as of 30 April 2014 is available for viewing on the company's website.

### **Personnel**

The number of permanent Group staff in the review period averaged 155 (146 in the previous corresponding period) and fixed-term employees 312 (291). At the end of the review period, the Group had 379 employees (354).

Samantha Vesala has been named Head of Business Operations in charge of Asian operations and Member of the Management Group of Saga Furs beginning 1 June 2014.

## **General Meetings**

The Annual General Meeting of Saga Furs Oyj held on 24 April 2014 approved the financial statements for the financial period ending on 31 October 2013 and decided to distribute a dividend of EUR 2.05/share, totalling EUR 7,380,000, and to transfer EUR 2,220,000 to the counter-cyclical budgetary fund.

Fur breeders Kenneth Ingman, Lasse Joensuu, Jorma Kauppila, Pentti Lipsanen, Christer Nordmyr, Hannu Sillanpää and Rainer Sjöholm and Managing Director of Artek Oy Ab Mirkku Kullberg were elected to the Board of Directors. Following the AGM, Jorma Kauppila was elected Chair and Kenneth Ingman Deputy Chair of the Board of Directors at the first meeting of the Board. Ernst & Young Oy was elected as the company's auditor.

## **Seasonal variation**

Saga Furs Oyj holds four auctions over the course of the 12-month sales period. The timing and volumes on sale at auctions vary from one year to the next. Due to this variation, significant differences may also occur from one financial year to the next, since the number of auctions arranged during the reference period may or may not be the same. Therefore, fluctuations in the value of sales, net turnover and costs compared with the reference period may not provide an accurate picture of the development over an entire financial year.

## **Business risks and uncertainties**

The most significant business risks and uncertainties are described in the Board of Directors' report for the financial year 1 September 2012 to 31 October 2013. Financial risk management is explained in section 24 of the notes to the consolidated financial statements. As a result of the decrease in the pelt price level, the risks related to breeding and pelt advances paid by the company to pelt suppliers have increased but have not been realised. The company recorded credit loss for receivables from buyers, because, as the result of the steep decrease in pelt prices, the value of the pelts held by the company has decreased by an amount that exceeds the collateral security received from the customer that has become insolvent.

## **Significant events after the review period**

Saga Furs Oyj arranged an auction in cooperation with the North American auction houses American Legend and Fur Harvesters Auction Inc. on 1–12 June 2014. In the challenging market situation, Saga Furs Oyj was able to sell nearly the entire volume available at the June auction. The mink markets' uncertainty that prevailed before the auction was also reflected in fox pelt sales, and the price level was lower than at Saga Furs' March auction. However, trust in the markets was reinforced during the auction, and the company was able to turn the decrease in mink pelt prices back into an increase. A total of 650 buyers participated in the auction. The value of Saga Furs Oyj's sales at the auction totalled EUR 157 million (273 MEUR in the previous year). A total of 3.5 million mink pelts (2.7 million at the corresponding auction in the previous year), 620,000 fox pelts (520,000), 12,000 Karakul lamb pelts (25,000) and 16,000 Finnraccoon pelts (24,000) were sold at the auction.

## **Prospects for the rest of the financial year**

Saga Furs will arrange the final auction of the financial year between 18 and 22 September. In this auction, approximately 630,000 fox pelts and 750,000 mink pelts, most of which representing a weaker quality, will be offered. The challenging market climate is expected to persist. The global over-production of mink pelts is taking a turn downward, especially in China, due to the strong decrease in prices. However, this will not be reflected in prices until in the upcoming selling season, at the soonest.

Expenses for the financial period are expected to grow due to the recorded credit losses for receivables from buyers and the increased pelt handling and storage costs. In June, the company initiated a renovation of its auction centre, and the revamped premises will be completed by the March 2015 auction.

The company tries to promote mink pelt sales by offering customers longer payment periods, for instance. The fox furs sold at the March and June auctions were delivered at quite a rapid speed. Fur producers are expected to use the advance financing offered by the Group more actively during this summer and autumn than in past years. The total consolidated net financial income is expected to remain below the previous financial period's level. The consolidated profit is expected to remain clearly lower than that of the previous financial year but still show a profit.

## Consolidated statement of financial position, IFRS

EUR 1.000

<b>ASSETS</b>	<b>30 Apr 2014</b>	30 Apr 2013	31 Oct 2013
<b>Non-current assets</b>			
Property, plant and equipment	<b>31 018</b>	28 503	28 906
Intangible assets	<b>4 229</b>	3 771	3 952
Available-for-sale investments	<b>678</b>	472	539
Long-term receivables from fur breeders	<b>6 965</b>	5 184	6 516
Non-current assets, total	<b>42 890</b>	37 929	39 913
<b>Current assets</b>			
Inventories	<b>2 203</b>	1 397	2 010
Interest-bearing receivables from buyers	<b>57 960</b>	81 807	35 597
Interest-bearing receivables from fur breeders	<b>51 935</b>	14 844	41 381
Non-interest-bearing receivables	<b>69 497</b>	44 930	30 768
Tax assets based on taxable income for the period	<b>3 369</b>	0	0
Cash and cash equivalents	<b>7 337</b>	9 196	25 071
Current assets, total	<b>192 301</b>	152 174	134 827
Total assets	<b>235 190</b>	190 103	174 741
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>30 Apr 2014</b>	30 Apr 2013	31 Oct 2013
<b>Equity attributable to parent company's shareholders</b>			
Share capital	<b>7 200</b>	7 200	7 200
Share premium account	<b>254</b>	254	254
Other funds	<b>19 590</b>	17 370	17 370
Translation difference	<b>56</b>	57	57
Fair value reserve	<b>245</b>	153	203
Retained earnings	<b>58 226</b>	62 901	70 327
Shareholders' equity, total	<b>85 570</b>	87 934	95 411
<b>Non-current liabilities</b>			
Deferred tax liabilities	<b>2 037</b>	2 635	2 620
<b>Current liabilities</b>			
Interest-bearing liabilities	<b>101 067</b>	72 189	54 417
Trade and other payables	<b>46 494</b>	25 646	20 503
Deferred taxes based on the taxable income	<b>22</b>	1 699	1 789
Current liabilities, total	<b>147 583</b>	99 534	76 709
Total liabilities	<b>149 620</b>	102 169	79 329
Total shareholders' equity and liabilities	<b>235 190</b>	190 103	174 741

## Consolidated statement of comprehensive income

EUR 1.000	1 Feb 2014- 30 Apr 2014 3 mo	1 Nov 2013- 30 Apr 2014 6 mo	1 Feb 2012- 30 Apr 2013 3 mo	1 Nov 2012- 30 Apr 2013 6 mo	1 Sep 2012- 31 Oct 2013 14 mo
<b>Continuous operations</b>					
Net turnover	20 916	26 293	28 758	41 567	78 475
Other operating income	174	246	87	136	364
Materials and supplies	-1 602	-2 898	-1 697	-2 256	-5 427
Employee benefits	-5 715	-12 063	-4 535	-10 234	-19 561
Depreciation and impairment loss	-961	-1 847	-880	-1 773	-4 025
Other operating expenses	-8 789	-14 641	-7 153	-13 130	-24 877
Operating profit/loss	4 023	-4 909	14 579	14 310	24 949
Financial income	1 256	2 288	1 343	2 579	5 608
Financial expenses	-234	-421	-84	-168	-827
Profit/loss before tax	5 045	-3 042	15 838	16 722	29 730
Income tax	-1 076	541	-3 880	-4 097	-7 418
Net profit/loss for the reporting period	3 969	-2 501	11 958	12 625	22 312
<b>Other comprehensive income</b>					
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Available-for-sale investments	42	52	-52	-36	27
Translation differences	-2	-1	2	-1	-2
Income tax effect	-8	-10	13	9	-7
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	31	40	-37	-28	18
Total comprehensive income/expense	4 001	-2 461	11 921	12 597	22 330
Earnings per share, EUR, basic (EUR) *)	1,10	-0,69	3,32	3,51	6,20

\*) There are no factors diluting the key performance indicator

## Consolidated statement of cash flows

EUR 1.000	1.11.2013- 30.4.2014 6 mo	1.11.2012- 30.4.2013 6 mo	1.9.2012- 31.10.2013 14 mo
<i>Cash flow from operating activities</i>			
Payments received for selling on commission	227 411	464 605	994 097
Cash received from other operating income	215	133	343
Cash paid for other operating expenses	-290 693	-493 895	-984 340
Cash flow from operating activities before financial items and taxes	-63 066	-29 157	10 100
Interests, paid	-276	-176	-812
Other financial expenses	-96	-43	-139
Interest, received	2 865	2 815	5 436
Other financial income	74	135	245
Dividend income	21	22	22
Direct taxes paid	-4 446	-3 414	-6 691
Net cash flow from operating activities (A)	-64 924	-29 818	8 161
<i>Cash flow from investment activities</i>			
Investments in tangible and intangible assets	-4 265	-1 667	-5 268
Proceeds from sale of tangible and intangible assets	50	9	49
Investments in other assets	-88	0	0
Net cash flow from investments activities (B)	-4 303	-1 658	-5 220
<i>Cash flow from financing activities</i>			
Proceeds from short-term borrowings	51 495	25 602	4 018
Dividends paid	-3	-6 011	-6 011
Net cash flow from financing activities (C)	51 492	19 591	-1 993
Change in cash flows (A+B+C) increase (+) / decrease (-)	-17 734	-11 885	948
Cash and cash equivalents, 30 Apr / 31 Oct	7 337	9 196	25 071
./. Cash and cash equivalents, 1Nov/ 1 Sep	25 071	21 080	24 124
Net change in cash and cash equivalents	-17 734	-11 885	948

### Consolidated statement of changes in shareholders' equity 1.11.2012-30.4.2013

	Share capital	Share premium account	Other funds	Translation difference	Fair value reserve	Retained earnings	Before minority interests	Minority interests	Total
Shareholders' equity, 1 Nov 2012	7 200	254	15 700	57	179	58 066	<b>81 457</b>	0	<b>81 457</b>
Result for the reporting period						12 625	<b>12 625</b>		<b>12 625</b>
Other comprehensive income/expense				-1	-27	-1	<b>-29</b>		<b>-29</b>
Dividend						-6 120	<b>-6 120</b>		<b>-6 120</b>
Transfer to counter-cyclical budgetary fund			1 670			-1 670	<b>0</b>		<b>0</b>
Shareholders' equity, 30 Apr 2013	7 200	254	17 370	56	153	62 900	<b>87 934</b>	0	<b>87 934</b>

### Consolidated statement of changes in shareholders' equity 1.11.2013-30.4.2014

Shareholders' equity, 1 Nov 2013	7 200	254	17 370	57	204	70 327	<b>95 411</b>	0	<b>95 411</b>
Result for the reporting period						-2 501	<b>-2 501</b>		<b>-2 501</b>
Other comprehensive income/expense				-1	41	-1	<b>40</b>		<b>40</b>
Dividend						-7 380	<b>-7 380</b>		<b>-7 380</b>
Transfer to counter-cyclical budgetary fund			2 220			-2 220	<b>0</b>		<b>0</b>
Shareholders' equity, 30 Apr 2014	7 200	254	19 590	56	245	58 226	<b>85 570</b>	0	<b>85 570</b>

## Key performance indicators

	<b>2013/2014</b> <b>6 mo</b>	2012/2013 6 mo	2012/2013 14 mo
Total sales, EUR 1,000	<b>272 344</b>	511 537	980 610
Net turnover, EUR 1,000	<b>26 293</b>	41 567	78 475
Operating profit/loss, EUR 1,000	<b>-4 909</b>	14 310	24 949
% of net turnover	<b>-18,7%</b>	34,4 %	31,8 %
Profit before taxes, EUR 1,000	<b>-3 042</b>	16 722	29 730
% of net turnover	<b>-11,6 %</b>	40,2 %	37,9 %
Earnings per share, EUR	<b>-0,69</b>	3,51	6,20
Equity per share, EUR	<b>23,77</b>	24,43	26,50
Return on equity (ROE)-%	<b>-2,8 %</b>	14,9 %	25,6 %
Return on investment (ROI)-%	<b>-1,6 %</b>	11,8 %	22,6 %
Equity-to-assets ratio, %	<b>40,0 %</b>	48,4 %	57,1 %
Gearing	<b>1,1</b>	0,72	0,31
Gross capital expenditure, EUR 1,000	<b>4 352</b>	2 930	5 268
% of net turnover	<b>16,6 %</b>	7,0 %	6,7 %
Average number of personnel	<b>467</b>	437	304

### Principles for calculating key performance indicators:

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

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

## Commitments and contingencies

EUR 1.000 30 Apr 2014      30 Apr 2013      31 Oct 2013

### Mortgages given and receivables pledged in security for dept

Loans from financial institutions	<b>61 196</b>	30 110	8 066
Mortgages on property	<b>54 071</b>	54 071	54 071
Mortgages on company assets	<b>2 691</b>	2 691	2 691
Pledges given	<b>791</b>	791	791

### Derivative contracts

Forward exchange agreements	<b>48 434</b>	63 897	12 223
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### 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 348.000 and the last year of inspection is 2023.

## Related Party Transactions

EUR 1.000 2013/2014      2012/2013      2012/2013  
6 mo              6 mo              14 mo

### Transactions with related parties:

<i>Net turnover</i>			
- other related party	<b>229</b>	191	256
<i>Other operating income</i>			
- parent company	<b>24</b>	21	50
<i>Other operating expenses</i>			
- parent company	<b>-14</b>	-10	-13
<i>Financial income</i>			
- other related party	<b>24</b>	11	16
<i>Financial expenses</i>			
- parent company	<b>-5</b>	-11	-44
- other related party	<b>-1</b>	-3	-10
<i>Related party receivables</i>			
- other related party	<b>1 366</b>	11	8
<i>Related party liabilities</i>			
- parent company	<b>-3 921</b>	-4 188	-4 469
- other related party	<b>-1 960</b>	-1 610	-1 543

<b>Management compensation</b>	<b>2013/2014 6 mo</b>	2012/2013 6 mo	2012/2013 14 mo
Remuneration and other short-term employee benefits	<b>693</b>	657	1 368

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 June 2014

Board of Directors