

## SAGA FURS OYJ

### FINANCIAL STATEMENTS BULLETIN FOR THE FINANCIAL PERIOD 1 NOVEMBER 2013–31 OCTOBER 2014

Vantaa, 30 December 2014

#### Saga Furs Oyj continued to make a profit

- The value of sales in the financial year 1 November 2013–31 October 2014 fell to EUR 505 million (MEUR 889 in the previous corresponding 12-month period and MEUR 981 in the previous 14-month financial year), due to a steep decrease in pelt prices.
- The company traded a total of 9.8 million pelts in the period (9.1 million in the previous corresponding 12-month period and 10.3 million in the previous 14-month financial year).
- In the uncertain market conditions, mink pelt prices fell by 56 per cent and fox pelt prices by 36 per cent from the previous corresponding 12-month period.
- As a result of the drop in prices, consolidated net turnover fell by 29 per cent from the previous corresponding 12-month period and 37 per cent from the previous financial year, to EUR 49.8 million.
- The Group's operating result fell short of the estimates set at the beginning of the financial year: operating profit/loss showed a loss of EUR 1.1 million (a profit of MEUR 22.6 in the previous corresponding 12-month period and a profit of MEUR 24.9 in the previous 14-month financial year).
- Profit before taxes came to EUR 2.1 million (MEUR 26.7 in the previous corresponding 12-month period and MEUR 29.7 in the previous 14-month financial year).
- Earnings per share were EUR 0.41 (EUR 5.57 in the previous corresponding 12-month period and EUR 6.20 in the previous 14-month financial year).
- The Board of Directors will propose to the Annual General Meeting, convening on 22 April 2015 that a dividend of EUR 0.70 per share (totalling EUR 2,520,000) be paid to shareholders from the distributable funds for the financial year 1 November 2013–31 October 2014 and that EUR 150,000 be transferred to the counter-cyclical budgetary fund.

Consolidated key figures	8/14-10/14 3 mo	11/13-10/14 12 mo	8/13-10/13 3 mo	11/12-10/13 12 mo	9/12-10/13 14 mo
Total sales, MEUR	76,2	505,4	104,5	889,2	980,6
Total amount of skins sold, 1.000 pcs	1 227	9 797	633	9 129	10 277
Net turnover, MEUR	7,9	49,8	7,3	70,2	78,5
Operating profit/loss, MEUR	-2,1	-1,1	-0,6	22,6	24,9
Profit before taxes, MEUR	-1,5	2,1	0,5	26,7	29,7
Earnings per share, EUR	-0,36	0,41	0,07	5,57	6,20
Return on equity, (ROE) %	-1,4 %	1,6 %	0,3 %	22,7 %	25,6 %
Return on investment, (ROI) %	-0,8 %	1,7 %	0,4 %	19,9 %	22,6 %

## Accounting principles

The information in this Financial Statements Bulletin is based on the financial statements and the Report of the Board of Directors to be released on the company website [www.sagafurs.com](http://www.sagafurs.com) on 28 January 2015 by 4:00 p.m. The financial statements bulletin was prepared in accordance with IAS 34 Interim Financial Reporting. The figures presented in this financial statements bulletin are unaudited.

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

- *IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities.* The amendment concerns disclosures of financial assets and liabilities that are offset. The objective of this amendment is to provide more information on how the netting of financial instruments has affected the company's balance sheet and its rights and responsibilities.
- *IFRS 10 Consolidated Financial Statements.* Building on existing principles, the standard identifies the concept of control as the determining factor in whether an entity should be included in the consolidated financial statements. The standard also provides additional guidance for situations in which control is difficult to assess. The standard will not affect the Group structure.
- *IFRS 11 Joint Arrangements.* In the accounting of joint arrangements, the standard focuses on the rights and obligations arising from the arrangements rather than on their legal form. The standard also requires joint ventures to be accounted for using the equity method; proportionate consolidation is no longer permitted. The standard will not affect the Group structure.
- *IFRS 12 Disclosure of Interests in Other Entities* The standard brings together the disclosure requirements for all forms of interest in other entities, including associates, joint arrangements, special purpose entities and other off-balance-sheet vehicles. The standard will not affect the Group structure.
- *IFRS 13 Fair Value Measurement.* The standard improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is permitted or required by other standards. The amendment has not significantly affected the consolidated financial statements.

## Business overview

The 2013–2014 retail sales season was considerably weaker than in previous years in all main markets, with the exception of North America. Warm winter weather prevailed for a long time both in Asia and Europe. Russia's economy performed poorly. At the end of the retail sales season, inventories of unsold garments in China, the company's main market, were much larger than in previous years. This had a direct impact on demand for mink pelts, with prices falling by 56 per cent from the previous selling season (the last 12 months of the previous 14-month financial year). The retail sales season for fox pelt garments was better than that for mink garments, and the inventories of unsold pelts and garments were not substantially higher at the end of the season than in previous years. However, the decrease in the price level of mink, the main object of the global fur trade, was also reflected in the price level of fox pelts, which dropped by 36 per cent.

The mild early winter in the main markets and the resulting slow start to retail sales influenced the results of the December auction. The prices of the Saga® mink and fox pelts on offer were at the same level as at the previous year's opening auction, but only about 25 per cent were sold. At the March auction, the uncertainty of the market had a more dramatic effect on the sales results. All auctioned Saga® mink and fox pelts were sold, but the prices of the mink pelts decreased by 50 per cent and those of the fox pelts by 23 per cent from the corresponding auction last year. As a result, the company issued a profit warning on 26 March 2014. The uncertainty on the mink market that prevailed before the June auction was also reflected in fox pelt sales, and the price level was significantly lower than at the company's 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, which persisted at international auctions after the March auction, back into an increase. Almost all of the Saga® mink and fox pelts on offer were sold. The September auction showed that confidence in the fur market had been restored. All Saga® mink and fox pelts on offer were sold, and the price level of both was up from the June auction. The value of sales for the entire financial year fell by 48 per cent to EUR 505 million (MEUR 889 for the previous corresponding 12-month period and MEUR 981 for the previous 14-month financial year).

The US dollar was weaker at the time of the company's main auctions compared to the auctions in the previous financial year, as it only began to strengthen in summer 2014. The average exchange rate, weighted on the basis of auction sales, was four per cent lower than in the previous selling season.

Advance financing granted to producers increased substantially, by an average of 65 per cent. After the December 2013 auction, a larger share of the company's producers needed advance financing. In summer 2014, the company concluded a much higher number of contracts for advance financing than in the previous financial periods, and the number of pre-financed animals more than doubled from the year before. Although advance financing per animal/pelt has declined from the previous year, the decrease in pelt prices has increased the company's credit loss risk. Due to the steep drop in pelt prices, one major buyer became insolvent. Since the decrease in the value of pelts exceeded the value of the collateral security received from the customer, the company recorded a substantial credit loss. The pelts deposited as collateral were measured at the market price, but they have not been realised yet. If the current market conditions persist or worsen, credit loss risks associated with receivables from both producers and buyers would increase further.

The dramatic decline in mink pelt prices also affected the profitability of the Group's trade in breeding animals. The Group company Lumi Mink Oy provides breeding animals for Finnish fur producers in order to ensure the diversity of animal populations and improve the quality of mink pelts traded by the parent company. Owing to the reduction of prices, the demand for breeding animals fell sharply, and a significant proportion of the production had to be sold as pelts at a much lower price. Lumi Mink Oy's result before extraordinary items showed a significant loss.

The number of mink pelts collected by Saga Furs Oyj grew by nearly 20 per cent from the previous financial year, owing to the successful auctions in the 2012–2013 selling season and the operations of the company's strengthened producer service organisation. In addition, the company's market share in pelts traded via various auction companies increased. For fox and Finnraccoon, the number of pelts collected by the company and its market share remained the same.

The company's production and warehouse premises were no longer sufficient due to the following reasons: the transfer of pelts unsold at the December 2013 auction to subsequent auctions, slower delivery of sold mink pelts compared to previous financial years, and higher numbers of collected pelts. Two separate intermediate warehouses were leased during the financial period, which at the end of the period were replaced by a single warehouse measuring 11,000 m<sup>2</sup> for the 2014–2015 selling season.

The sales cooperation agreed on in September 2013 between Saga Furs Oyj and the North American auction houses American Legend and Fur Harvesters Auction Inc. began at the March 2014 auction and continued at the June 2014 auction. The March auction became the world's largest auction in the 2013–2014 selling season, measured by the number of customers. At this joint auction, the selections of the three companies complemented each other. In April 2014, the companies signed a letter of intent for long-term collaboration. The actual agreement was concluded in October 2014. The agreement does not involve any ownership arrangements.

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. The expansion of the property was initiated during the financial period in order to respond to the increasing demand for pelting services. The expansion was completed at the end of October 2014. In June, Saga Furs Oyj set in motion the renovation of the Fur Center's auction premises. The capacity of the auction room, the customer and personnel restaurants and the kitchen will also be increased at the same time. The revamped premises will be completed in stages ahead of the March 2015 auction.

The efficiency of international lobbying was enhanced due to the reorganisation of the operations of Saga Furs Oyj's cooperation partners. In future, Fur Europe will be responsible for lobbying for the entire fur sector in Europe, while the International Fur Federation (IFF) will focus on fighting obstacles to global fur trade and other global issues. Saga Furs Oyj is represented in the Boards of Directors of both of these organisations, and also provides financing for their operations.

## **Sales during the financial year 1 November 2013–31 October 2014**

### *Review period 1 August–31 October 2014*

The auction held by Saga Furs Oyj on 18–22 September showed that confidence in the fur market had been restored. The company sold a total of 560,000 mink pelts (65,000 at the corresponding auction in the previous year), 620,000 fox pelts (510,000), 18,000 Karakul lamb pelts (21,000) and 26,000 Finnraccoon pelts (33,000). The price level of both mink and fox pelts strengthened compared with the June auction. The five-day auction was attended by 450 buyers from all market areas, and total value of sales came to EUR 76 million (MEUR 104).

### *Financial year 1 November 2013–31 October 2014*

Saga Furs Oyj held a total of four auctions during the financial year, selling 7.3 million mink pelts (6.4 million in the previous corresponding 12-month period and 7.0 million in the previous 14-month financial year). Of these, 93 per cent were from the Saga collections. The company sold 480,000 Eastern European mink pelts as separate collections. A total of 2.0 million fox pelts (2.1 million and 2.6 million),

330,000 Karakul lamb pelts from Afghanistan (440,000 and 500,000) and 110,000 Finn raccoon pelts (140,000 and 170,000) were sold.

The Saga Furs Group's financial period was influenced by the 2013–2014 retail sales season, which was considerably weaker than in previous years. The demand for mink pelts declined, and their prices fell by 56 per cent from the previous selling season. The decrease in mink pelt prices was also reflected in the price level of fox pelts, which dropped by 36 per cent. The average exchange rate of the US dollar, weighted on the basis of auction sales, was four per cent lower than in the previous selling season. The number of pelts sold was up by seven per cent from the previous 12-month selling season, but down by five per cent from the previous 14-month financial year. Due to the lower price level, the value of sales decreased by 43 per cent from the previous selling season and 48 per cent from the previous financial period. The value of sales was EUR 505 million (MEUR 889 million and MEUR 981).

The value of sales by auction was divided as follows:

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	Sales 1,000 pelts 2011/2012	Value EUR 1,000 2011/2012
September			1 144	91 348	1 537	98 680
December	494	33 779	1 579	143 468	1 489	98 240
March	3 959	238 071	3 658	367 699	3 469	305 236
June	4 109	156 676	3 253	272 884	2 720	191 388
September	1 224	75 874	630	104 357		
Warehouse sales	12	1 017	14	854	44	1 647
<b>Total</b>	<b>9 797</b>	<b>505 418</b>	<b>10 277</b>	<b>980 610</b>	<b>9 259</b>	<b>695 191</b>

## Net turnover

### *Review period 1 August–31 October 2014*

The value of the Group's sales in the last quarter of the financial year decreased by 27 per cent from the previous corresponding review period, to EUR 76.2 million, despite an increase of 94 per cent in the number of pelts traded. As a result of this increase, consolidated net turnover rose by 9 per cent, amounting to EUR 7.9 million (MEUR 7.3).

### *Financial year 1 November 2013–31 October 2014*

Consolidated net turnover fell by 29 per cent from the previous corresponding 12-month period and by 37 per cent from the previous 14-month financial year. Net turnover for the financial year was EUR 49.8 million (MEUR 70.2 and MEUR 78.5). The bulk of net turnover, 88 per cent (89% and 90%), consisted of commission fees collected for pelt trading. The decrease in pelt prices altered the structure of commission fees significantly. The commission fees from producers accounted for 24 per cent (15% and 17%) and the commission fees from buyers for 61 per cent (72% and 72%) of the Group's 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. Of the net turnover, 11 per cent was generated in the first quarter of the financial year, 42 per cent in the second quarter, 31 per cent in the third quarter and 16 per cent in the last quarter.

## **Financial performance**

### *Review period 1 August–31 October 2014*

In the final quarter of the financial year, other operating income amounted to EUR 150,000 (EUR 110,000). Operating expenses totalled EUR 10.2 million (MEUR 7.9), resulting in an operating loss of EUR 2.1 million (EUR -580,000). Net financial income was EUR 660,000 (MEUR 1.1). Consolidated loss before taxes for the final quarter stood at EUR 1.5 million (profit of MEUR 510,000).

### *Financial year 1 November 2013–31 October 2014*

Other operating income for the financial year, the most significant of which was rental income from the Fur Center property, totalled EUR 420,000 (EUR 310,000 for the previous corresponding 12-month period and EUR 360,000 for the previous financial year). Operating expenses totalled EUR 51.3 million, whereas in the previous corresponding 12-month period and the previous 14-month financial year, they totalled EUR 48.0 million and EUR 53.9 million respectively. Operating expenses include a credit loss of EUR 2.9 million recorded for receivables from buyers. Due to the steep drop in pelt prices, one major customer of the company became insolvent, and the decrease in the value of the pelts exceeds the value of the collateral security received from the customer. The pelts deposited as collateral are measured at the market price but they have not been realised yet. Personnel expenses account for 38 per cent and other operating expenses for 46 per cent of the operating expenses. Personnel expenses rose by 10 per cent from the previous corresponding 12-month period, amounting to EUR 19.2 million. The average number of personnel grew by nine per cent from the previous corresponding 12-month period. The number of minks received in the financial period increased from last year, and the pelts unsold at the December auction increased handling costs. Compared to the previous 14-month financial year, personnel expenses declined by two per cent. Operating expenses, excluding the recorded credit loss, fell by six per cent from the previous corresponding 12-month period, amounting to EUR 20.7 million. Costs related to international lobbying, performed via IFF, declined by EUR 1.7 million from the previous corresponding 12-month period, to EUR 2.2 million. Other operating expenses fell by five per cent from the previous 14-month financial year. Of the expenses, 28 per cent were generated in the first quarter of the financial year, 33 per cent in the second quarter, 19 per cent in the third quarter and 20 per cent in the last quarter. Due to the steep drop in the price level of fur pelts, the Group's operating result fell short of the estimates set at the beginning of the financial year: operating loss came to EUR 1.1 million (profit of MEUR 22.6 and MEUR 24.9).

Consolidated net financial income decreased by 25 per cent from the previous corresponding 12-month period, amounting to EUR 3.1 million (MEUR 4.2 and MEUR 4.8). As a result of the reduced price level, the Group recorded credit losses of EUR 870,000 for receivables from Finnish and foreign producers. Consolidated net interest income fell, owing to the company's efforts to promote sales by offering customers longer interest-free payment periods, for instance. Net interest income totalled EUR 3.8 million (MEUR 4.0 and MEUR 4.6). Consolidated profit before taxes came to EUR 2.1 million (MEUR 26.7 and MEUR 29.7).

Return on equity for the financial year was 1.6 per cent (22.7 % and 25.6%), and earnings per share were EUR 0.41 (EUR 5.57 and EUR 6.20). Equity per share was EUR 24.98 (EUR 26.50). The Group's equity ratio was 43.5 per cent (57.1%).

### Capital expenditure

Consolidated gross capital expenditure during the financial year totalled EUR 12.9 million (MEUR 5.3), accounting for 26 per cent (7%) of net turnover. Of the capital expenditure, 83 per cent was spent on the parent company's tangible assets, seven per cent on the subsidiaries' tangible assets and 10 per cent on the parent company's 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. The expansion of the property was initiated in order to respond to the increasing demand for pelting services. The expansion will be completed in autumn 2014. In June, the company initiated a renovation of its auction centre (Fur Center), and the revamped premises will be completed ahead of the March 2015 auction. Capital expenditure on equipment totalled EUR 2.7 million.

### Personnel

During the financial period, the company employed an average of 353 people. The majority of the staff have jobs relating to the handling of fur pelts.

The number of staff employed by the parent company and the Group was as follows:

	Parent company			Group		
	2013/2014	2012/2013	2011/2012	2013/2014	2012/2013	2011/2012
Average number of personnel	265	230	249	353	304	315
- permanent staff	118	108	107	158	146	141
- fixed-term staff	147	122	142	195	158	174
Number of staff at the end of the financial year on 31 Oct/Aug	133	120	113	215	182	154

### Share trade and share performance

The company's Series C shares are publicly quoted. Saga Furs Oyj is a Small Cap company belonging to the Industrial and Consumer services sector of NASDAQ OMX Helsinki. The value of shares traded in the financial period totalled EUR 31.6 million and the volume was 910,000 shares, representing 34 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 EUR 22.51, with the average price being EUR 34.65. The Series C share closed at EUR 25.14, while a year earlier, it closed at EUR 44.05. The market capitalisation totalled EUR 90.5 million (MEUR 158.6) at the end of the financial year, on 31 October.

## General Meeting

The Annual General Meeting of Saga Furs Oyj held on 24 April 2014 approved the financial statements for the financial year 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. The dividend was paid out on 7 May 2014.

At the AGM held on 24 April 2014, the number of the members of the Board of Directors was increased from six to eight. Fur breeders **Kenneth Ingman, Lasse Joensuu, Jorma Kauppila, Pentti Lipsanen, Christer (Krister) Nordmyr, Rainer Sjöholm** and **Hannu Sillanpää** as well as **Mirja-Leena (Mirkku) Kullberg**, Managing Director of Artek Oy Ab, were elected to the Board of Directors for a term to run until the next AGM. 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. Upon the AGM's decision, **Ernst & Young Oy** will continue as the company's auditor, with Authorised Public Accountant **Johanna Winqvist-Ilkka** as the main auditor.

## Business risks and uncertainties

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

### Risks related to supply and demand

Pelt prices can fluctuate strongly according to the financial cycle. As fur farming follows an annual cycle, Saga Furs Oyj needs at least six months to adapt to the price changes. These elements involve considerable risks with respect to the company's financial performance. The bulk of fur pelts offered during a financial year are sold at the auctions held in March and June, when the demand is highest. At this point, most of the costs have already been incurred.

A possible decrease in the use of furs in the fashion industry is clearly a risk for the company. The company is engaged in active marketing and product development of Saga furs in order to influence the choices of the international world of fashion. The goal is to modernise fur as material and find new uses for fur in order to establish a stable position in the world of fashion. The origin of pelts, the responsibility of production methods and the traceability of products have recently gained in importance in the fashion industry. Consumers are calling for complete transparency in the fashion industry, which is why the industry, in turn, requires suppliers to increasingly provide traceability all the way to individual pelt producers. Certification of production as an indicator of responsibility is of major importance. If the expectations of the fashion industry cannot be met, a significant risk exists that the use of fur in the fashion industry will decrease.

Purchases by China and Hong Kong-based customers are currently dominating the global fur trade. In the 2013–2014 retail sales season, demand in this market area did not increase as rapidly as before, and the quantity of unsold garments at the



end of the season was considerably higher than in previous years. The demand was affected by warmer weather and, to some extent, the extensive anti-corruption campaign of China's present leaders, which has made Chinese consumers more cautious about flaunting their wealth. If, contrary to expectations, demand in China were to stabilise at the level of the previous retail sales season, other markets would not be able to compensate for this.

Due to higher prices, too many mink pelts are being produced, at least compared to the likely short-term demand, and global fur pelt production will have to adjust to this situation. In recent years, China has become the world's largest producer of mink and fox pelts. The Chinese government is supporting domestic production among other things by imposing high import duties and enforcing their payment with increasingly strict control. The IFF has been negotiating alleviations to these duties. The protection of domestic fur pelt production in the world's largest fur consumer market by means of import duties may weaken the relative competitiveness of European producers. This involves a risk that when production is adjusted to demand, much of the capacity is reduced in pelt production areas that are the most important for the company.

As a result of the focus of global fur trade shifting to China and Hong Kong, the pelt dressing capacity has also concentrated in this region. Dressing has become a significant bottleneck in the industry, and an interruption at a single major dressing plant would essentially disrupt the global fur trade. Up until now, import duties have not been levied on pelts taken to China for dressing. To prepare for the risk of a change in this policy, the fur industry has also established dressing plants in other ASEAN countries. However, their dressing capacity is so far minor compared to the capacity in China.

Fur pelt production costs have risen drastically, as the rapid growth of production has greatly increased feed prices. This has also hindered fur production's tolerance to fluctuations in trends. However, the changes in demand are expected to substantially reduce feed costs in the upcoming breeding season. If costs of European fur production continue to grow, due to changes in legislation, for example, this may have a considerable impact on the extent of fur production in Western Europe. This would affect the number of pelts collected by the company.

The concentration of pelt production to larger units has led to higher financial risks for Saga Furs Oyj. Individual financial risks have increased, and some units may have grown too quickly, which has deteriorated their tolerance to economic fluctuations. The first units are already facing liquidity problems. This increases the risks related to advance financing for both breeding and pelts. On the other hand, the change in the customer base has improved the company's opportunities to increase the number of pelts sold. The dramatic decline in pelt prices has caused great losses for the global fur trade. In consequence, it is harder for buyers to obtain financing for their operations, and different types of financial arrangements are required for an even larger share of Saga Furs Oyj's sales. This exposes the company to higher financial risks in customer financing.

## **Changes in exchange rates**

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

## **Image risks and political risks**

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

### *Risks associated with fur farming*

The risks associated with the justification of fur farming remain considerable. The majority of political decision-makers continue to be in favour of fur farming in countries with the highest production volumes, such as Finland and Denmark. In Poland, which is an important fur producer for Saga Furs Oyj with significant volumes, the political climate has grown stricter, and Poland has recently been targeted by political movements aiming to ban fur farming. In the Netherlands, Europe's third largest mink production country, a campaign to ban mink farming fell through after a long process.

The image of fur farming is of paramount importance to the company. The activities of animal rights organisations aim to create a negative image of fur farming, and social media, which is outside the reach of source criticism, provides an even greater opportunity for this. On the level of impression, the often one-sided image conveyed through social media, for example, affects European decision-makers who are not familiar with the industry. Providing sufficient and truthful information and thereby reducing the risk of legislation being introduced that would make fur farming unprofitable, virtually impossible or illegal, is a continuous challenge. The situation is particularly challenging for fox production, since Finland is the only significant producer of fox pelts in the EU.

It is essential with regard to protecting Saga Furs Oyj and the entire industry from image and political risks that the production process of fur pelts be continuously improved and intervention take place quickly should any mistakes and neglect be detected in fur farms. Operations must be transparent from the setting of goals and measurement of progress to the reporting of results and dialogue with various stakeholders.

The certification of fur farms has become an integral part of the Saga Furs brand. It is a quality assurance and environmental system that emphasises responsibility, traceability and transparency and covers all parts of the fur farming process. The company promotes the implementation of certification systems in producer countries relevant to the company. In Finland, the Finnish Fur Breeders' Association (ProFur) is in charge of developing the certification system, and in September 2014, certification covered almost 95 per cent of Finnish fur production. In Norway, the local producers' association requires all of its members to be certified.

Since the 2012–2013 selling season, the company has only accepted Finnraccoon pelts from certified farms. In the 2013–2014 season, the company introduced separate selections for certified fox pelts, and from the 2014–2015 season onwards, it will only accept fox pelts produced by certified farms.

#### *Risks associated with fur pelt trade*

The markets for fur pelts are largely located in areas where trading habits, administration and regulations are very different from the EU and the United States. In particular, this applies to China and Russia, where changes are also difficult to predict.

Saga Furs Oyj aims to reduce trade-related risks in co-operation with IFF, amongst others.

#### **Main events after the end of the financial year**

The first auction of the 2014–2015 financial period was held on 18–21 December 2014 at the Scandic Park Helsinki hotel, due to the renovation of the Fur Center's auction premises. Auctioned items included 790,000 Saga mink pelts (790,000), 230,000 mink pelts of Eastern European origin (370,000), 240,000 fox pelts (280,000), 23,000 Finnraccoon pelts (22,000) and 430,000 Karakul lamb pelts from Afghanistan (350,000). At the time of the auction, the market situation was challenging. The economic uncertainty in Russia influenced the sales results for several types of pelts. The cold December weather perked up the Chinese market, improving the results for blue and shadow fox pelts and female mink pelts. Of the Saga® mink pelts and Saga® fox pelts on offer, 60 per cent and more than 80, respectively, were sold. The total value of sales at the auction rose to EUR 49 million (MEUR 34 in December 2013). More than 300 buyers from all market areas attended the auction.

The first phase of the renovation of the Fur Center's auction premises was completed at the end of November, and the new kitchen and expanded staff restaurant were opened. The auction room and the customer restaurant are expected to be finished in February 2015. After the renovation, the auction room will be able to host 630 customers, instead of the previous 515.

In autumn 2014, payments for sold mink pelts were made at a significantly slower pace than in previous financial years. This was partly predictable, as large manufacturers purchased pelts from the March and June auctions for the needs of 2015 and 2016 as well. This means that more storage space is needed. The volumes of mink pelts collected have also increased so much that part of the grading operations have been moved to leased premises. In the current financial year, mink grading will be performed in four locations, resulting in higher logistics costs.

The company's Management Group and organisation will undergo a major change in the current financial year. In November–December 2014, the Business Director in charge of producer services and the Director of Communications and CSR left the company and the Marketing Director transferred to another position. **Sameli Mäkelä** (M.Sc. Eng.) was appointed Production Director and member of the Management Group from 1 November 2014. The organisation reporting to the Sales Director was reformed with effect from 1 December 2014.

## **Estimate of business development in the current financial year**

In addition to the December 2014 auction, Saga Furs Oyj, together with the North American auction houses American Legend and Fur Harvesters Auction Inc., will arrange auctions on 10–20 March, 3–12 June and 18–22 September 2015. Each of the three companies will grade its own goods and sell them under its own brand name at Saga Furs Oyj's premises in Vantaa, Finland. Owing to the successful auctions in the challenging market conditions of the 2013–2014 sales season, the market shares of the auction companies involved in the collaboration are expected to increase. The companies aim to offer close to 13 million mink pelts during the season. Saga Furs Oyj intends to offer 8.5 million mink pelts, 2.1 million fox pelts, 130,000 Finn raccoon pelts and 400,000 Karakul lamb pelts in the selling season's auctions. The auction to be held in March is expected to be the largest fur auction in the world in the next selling season, in terms of volume and the number of customers.

The production volume of Western mink pelts continued to grow in 2014. The auction prices in the 2013–2014 selling season remained considerably higher than production costs in the early part of the season, when breeders made production decisions. The decrease in prices towards the end of the season did not affect production volumes. As a result, the mink pelt volumes to be offered at international auctions in the 2014–2015 selling season will be record high. The lower competitiveness of Chinese mink production led to reduced production in 2014, and production is expected to decline drastically in 2015. This is predicted to cut down the oversupply of lower-quality mink pelts in the long run. The development of Western production will depend on the sales results of the international auctions to be held in January–March. The production volume of fox pelts will increase only slightly, and their supply and demand are better balanced compared to mink pelts. However, the fluctuations in mink pelt prices will also affect the trade in fox pelts.

The 2013–2014 retail sales season was warm in many key markets, and the quantity of unsold garments at the close of the season was remarkably high. The current retail sales season in China will be considerably longer than last year, due to the Chinese New Year being celebrated in late February. The temperature in China dropped about a week before Saga Furs Oyj's December auction. In a situation where the volumes on offer are record high, it will be extremely important for the success of the selling season that the cold winter weather continues. In the Chinese market, uncertainty is also created by the termination at the beginning of 2015 of duty-free temporary imports of undressed fur pelts for garment manufacturing. From then on, the costs of garments made from Western pelts for export will increase, since, depending on the pelt type, a duty of 10 to 15 per cent of the value of the pelts used will be levied.

Early winter has also been cold in Russia and North America. Russia's economic challenges and the dramatic weakening of the rouble will reduce the purchasing power not only of Russians at the current season's auctions, but also that of customers who manufacture garments for the Russian market, including Greeks and Turks. Russia has been the world's second largest consumer market for fur garments. In the West, fur is in vogue, and the sales of European fashion houses have been reasonably good despite the tough economic climate. The last selling season in North America was successful, and this positive trend is expected to continue, aided by strong economic growth.

The international price level of fur pelts continues to be largely determined in US dollars, and the potential strengthening of the dollar would have a positive impact on the company's turnover. The Group's expenses per pelt are expected to remain virtually unchanged from the previous financial year. In the uncertain market conditions, the company and its competitors have offered their customers longer interest-free payment periods, and the company's net financial income is expected to fall from the previous financial year. The profit/loss for the financial period will depend on the sales results of the upcoming auctions, which, in this exceptionally challenging situation, are impossible to forecast.

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

On 31 October 2014, the parent company's distributable funds were as follows:

- retained earnings	56 525 671,56
- profit for the financial year	1 451 562,49
- to be transferred to the counter-cyclical budgetary fund according to the articles of association	<u>-145 156,25</u>
	57 832 077,80

The Board of Directors will propose to the Annual General Meeting that

- a dividend of EUR 0.70 per share (totalling EUR 2,520,000) be paid to shareholders from the distributable funds for the financial year 1 November 2013–31 October 2014 and that EUR 150,000 be transferred to the counter-cyclical budgetary fund.

The suggested dividend pay-out date is 4 May 2015.

## Consolidated statement of financial position, IFRS

EUR 1.000

<b>ASSETS</b>	<b>31 Oct 2014</b>	<b>31 Oct 2013</b>
<b>Non-current assets</b>		
Property, plant and equipment	37 463	28 906
Intangible assets	4 314	3 952
Available-for-sale investments	684	539
Long-term receivables from fur breeders	4 405	6 516
Non-current assets, total	<u>46 866</u>	<u>39 913</u>
<b>Current assets</b>		
Inventories	2 547	2 010
Interest-bearing receivables from buyers	58 256	35 597
Interest-bearing receivables from fur breeders	85 371	41 381
Non-interest-bearing receivables	21 930	30 768
Cash and cash equivalents	4 059	25 071
Current assets, total	<u>172 162</u>	<u>134 827</u>
Total assets	<u><u>219 028</u></u>	<u><u>174 741</u></u>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>31 Oct 2014</b>	<b>31 Oct 2013</b>
<b>Equity attributable to parent company's shareholders</b>		
Share capital	7 200	7 200
Share premium account	254	254
Other funds	19 590	17 370
Translation difference	60	57
Fair value reserve	262	203
Retained earnings	62 565	70 327
Shareholders' equity, total	<u>89 931</u>	<u>95 411</u>
<b>Provisions for liabilities and charges</b>	<b>266</b>	<b>0</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	2 168	2 620
<b>Current liabilities</b>		
Interest-bearing liabilities	99 367	54 417
Trade and other payables	26 751	20 503
Deferred taxes based on the taxable income	546	1 789
Current liabilities, total	<u>126 664</u>	<u>76 709</u>
Total liabilities	<u>128 832</u>	<u>79 329</u>
Total shareholders' equity and liabilities	<u><u>219 028</u></u>	<u><u>174 741</u></u>

## Consolidated statement of comprehensive income

EUR 1.000	1 Aug 2014- 31 Oct 2014 3 mo	1 Nov 2013- 31 Oct 2014 12 mo	1 Aug 2013- 31 Oct 2013 3 mo	1 Nov 2012- 31 Oct 2013 12 mo	1 Sep 2012- 31 Oct 2013 14 mo
<b>Continuous operations</b>					
Net turnover	7 927	49 783	7 253	70 209	78 475
Other operating income	154	416	107	308	364
Materials and supplies	-1 018	-4 525	-1 065	-4 962	-5 427
Employee benefits	-3 473	-19 239	-2 714	-17 499	-19 561
Depreciation and impairment loss	-1 065	-3 893	-829	-3 455	-4 025
Other operating expenses	-4 664	-23 596	-3 329	-22 048	-24 877
Operating profit/loss	-2 138	-1 054	-578	22 553	24 949
Financial income	1 455	4 821	1 211	4 829	5 608
Financial expenses	-800	-1 682	-125	-644	-827
Profit/loss before tax	-1 483	2 085	509	26 737	29 730
Income tax	181	-612	-259	-6 685	-7 418
Net profit/loss for the reporting period	-1 301	1 473	249	20 052	22 312
<b>Other comprehensive income</b>					
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Available-for-sale investments	20	70	38	31	27
Translation differences	5	5	-2	-1	-2
Income tax effect	-2	-12	-9	-8	-7
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	23	64	27	23	18
Total comprehensive income/expense	-1 278	1 536	277	20 074	22 330
Earnings per share, EUR, basic (EUR) *)	-0,36	0,41	0,07	5,57	6,20

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

## Consolidated statement of cash flows

EUR 1.000	1.11.2013- 31.10.2014 12 mo	1.11.2012- 31.10.2013 12 mo	1.9.2012- 31.10.2013 14 mo
<i>Cash flow from operating activities</i>			
Payments received for selling on commission	487 583	880 091	994 097
Cash received from other operating income	337	289	343
Cash paid for other operating expenses	-545 324	-870 684	-984 340
Cash flow from operating activities before financial items and taxes	-57 404	9 696	10 100
Interests, paid	-731	-635	-812
Other financial expenses	-970	-127	-139
Interest, received	4 535	4 216	5 436
Other financial income	285	64	245
Dividend income	21	22	22
Direct taxes paid	-1 890	-5 952	-6 691
Net cash flow from operating activities (A)	-56 154	7 284	8 161
<i>Cash flow from investment activities</i>			
Investments in tangible and intangible assets	-12 859	-3 955	-5 268
Proceeds from sale of tangible and intangible assets	88	19	49
Investments in other assets	-87	0	0
Net cash flow from investments activities (B)	-12 858	-3 936	-5 220
<i>Cash flow from financing activities</i>			
Proceeds from short-term borrowings	55 250	7 076	4 018
Dividends paid	-7 250	-6 011	-6 011
Net cash flow from financing activities (C)	48 000	1 065	-1 993
Change in cash flows (A+B+C) increase (+) / decrease (-)	-21 012	4 413	948
Cash and cash equivalents, 31 Oct	4 059	25 071	25 071
./. Cash and cash equivalents, 1 Nov/1 Sep	25 071	20 658	24 124
Net change in cash and cash equivalents	-21 012	4 413	948



### Consolidated statement of changes in shareholders' equity 1.9.2012-31.10.2013

	Share capital	Share premium account	Other funds	Translation difference	Fair value reserve	Retained earnings	Before minority interests	Minority interests	Total
Shareholders' equity, 1 Sep 2012	7 200	254	15 700	59	183	55 805	<b>79 201</b>	0	<b>79 201</b>
Result for the reporting period						22 312	<b>22 312</b>		<b>22 312</b>
Other comprehensive income/expense				-2	20	0	<b>18</b>		<b>18</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, 31 Oct 2013	7 200	254	17 370	57	203	70 327	<b>95 411</b>	0	<b>95 411</b>

### Consolidated statement of changes in shareholders' equity 1.11.2013-31.10.2014

Shareholders' equity, 1 Nov 2013	7 200	254	17 370	57	203	70 327	<b>95 411</b>	0	<b>95 411</b>
Result for the reporting period						1 473	<b>1 473</b>		<b>1 473</b>
Other comprehensive income/expense				3	58	2	<b>64</b>		<b>64</b>
Other change *)						363	<b>363</b>		<b>363</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, 31 Oct 2014	7 200	254	19 590	60	262	62 565	<b>89 931</b>	0	<b>89 931</b>

\*) Resulting from the change in tax base related to items that were recorded directly as profits during the IFRS transition

## Key performance indicators

	2013/2014 12 mo	2012/2013 12 mo	2012/2013 14 mo
Total sales, EUR 1,000	<b>505 418</b>	889 210	980 610
Net turnover, EUR 1,000	<b>49 783</b>	70 209	78 475
Operating profit/loss, EUR 1,000	<b>-1 054</b>	22 553	24 949
% of net turnover	<b>-2,1%</b>	32,1 %	31,8 %
Profit before taxes, EUR 1,000	<b>2 085</b>	26 737	29 730
% of net turnover	<b>4,2 %</b>	38,1 %	37,9 %
Earnings per share, EUR	<b>0,41</b>	5,57	6,20
Equity per share, EUR	<b>24,98</b>	26,50	26,50
Return on equity (ROE)-%	<b>1,6 %</b>	22,7 %	25,6 %
Return on investment (ROI)-%	<b>1,7 %</b>	19,9 %	22,6 %
Equity-to-assets ratio, %	<b>43,6 %</b>	57,1 %	57,1 %
Gearing	<b>1,06</b>	0,31	0,31
Gross capital expenditure, EUR 1,000	<b>12 946</b>	3 955	5 268
% of net turnover	<b>26,0 %</b>	5,6 %	6,7 %
Average number of personnel	<b>353</b>	325	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 31 Oct 2014    31 Oct 2013

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

Loans from financial institutions	<b>63 021</b>	8 066
Mortgages on property	<b>54 071</b>	54 071
Mortgages on company assets	<b>2 691</b>	2 691
Pledges given	<b>791</b>	791

### Derivative contracts

Forward exchange agreements	<b>29 268</b>	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 2.047.000 and the last year of inspection is 2023.

## Related Party Transactions

EUR 1.000 2013/2014    2012/2013    2012/2013  
12 mo    12 mo    14 mo

### Transactions with related parties:

<i>Net turnover</i>			
- other related party	<b>317</b>	248	256
<i>Other operating income</i>			
- parent company	<b>32</b>	43	50
<i>Other operating expenses</i>			
- parent company	<b>-13</b>	-15	-13
<i>Financial income</i>			
- other related party	<b>40</b>	14	16
<i>Financial expenses</i>			
- parent company	<b>-29</b>	-44	-44
- other related party	<b>-13</b>	-6	-10
<i>Related party receivables</i>			
- other related party	<b>988</b>	8	8
<i>Related party liabilities</i>			
- parent company	<b>-4 222</b>	-4 469	-4 469
- other related party	<b>-1 633</b>	-1 543	-1 543

	<b>2013/2014</b>	2012/2013	2012/2013
<b>Management compensation</b>	<b>12 mo</b>	12 mo	14 mo
Remuneration and other short-term employee benefits	<b>1 316</b>	1 221	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, 30 December 2014

SAGA FURS OYJ  
Board of Directors