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SAGA FURS OYJ

FINANCIAL STATEMENTS BULLETIN FOR THE FINANCIAL YEAR 1 NOVEMBER 2014–31 OCTOBER 2015

Vantaa, 29 December 2015 at 5:45 p.m.

Saga Furs Oyj's result improved significantly, even though the situation at the end of the financial year was challenging

- The total value of sales in the financial year 1 November 2014–31 October 2015 increased by 26 per cent and amounted to EUR 637 million (MEUR 505 for the previous financial year). The increase was brought about by an increase in the number of pelts sold and the weakening of the euro against the US dollar.
- The company auctioned a total of 11.1 million pelts during the period (9.8 million in the previous financial year).
- The international price level of mink pelts in the financial year 2014–2015 remained at the level of the previous financial year, while the international price level of fox pelts decreased by 15 per cent. The weakening of the euro brought about an increase in the euro-based prices of both mink and fox pelts compared to the previous financial year.
- Consolidated net turnover rose by 18 per cent year-on-year, amounting to EUR 58.5 million (MEUR 49.8).
- Thanks to the increase in the turnover, the operating profit improved clearly from the previous financial year and amounted to EUR 4.4 million (loss of MEUR 1.1).
- Net financial income for the financial year increased by 58 per cent year-on-year, thanks in particular to increased net interest income, totalling EUR 5.0 million (MEUR 3.1).
- Consolidated profit before taxes stood at EUR 9.4 million (MEUR 2.1 in the previous financial year).
- Consolidated earnings per share were EUR 2.06 (EUR 0.41 in the previous financial year).
- The Board of Directors will propose to the Annual General Meeting, convening on 21 April 2016, that a dividend of EUR 1.00 per share (totalling EUR 3,600,000) be paid to shareholders from the distributable funds for the financial year 1 November 2014–31 October 2015 and that EUR 645,000 be transferred to the counter-cyclical budgetary fund.

Consolidated key figures	8/15-10/15 3 mo	11/14-10/15 12 mo	8/14-10/14 3 mo	11/13-10/14 12 mo
Total sales, MEUR	57,1	637,3	76,2	505,4
Total amount of skins sold, 1.000 pcs	1 718	11 138	1 227	9 797
Net turnover, MEUR	7,2	58,5	7,9	49,8
Operating profit/loss, MEUR	-5,3	4,4	-2,1	-1,1
Profit before taxes, MEUR	-4,9	9,4	-1,5	2,1
Earnings per share, EUR	-1,11	2,06	-0,36	0,41
Return on equity, (ROE) %	-4,1 %	8,0 %	-1,4 %	1,6 %
Return on investment, (ROI) %	-2,6 %	5,4 %	-1,0 %	0,8 %

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 on 28 January 2016 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 2014, the Group adopted the following new or amended standards and interpretations, which have not had a significant effect on the financial statements:

- *IAS 32 Offsetting a financial asset and a financial liability.* The amendment concerns an incongruity in the earlier practice when applying instructions on when financial assets and liabilities can be presented on a net basis in the balance sheet.
- *IAS 36 Information presented in the financial statements in relation to accruable amount of cash in assets other than financial assets.* The amendment clarifies the requirements for the information to be presented in the financial statements in relation to fair value less transfer expenses.
- *IAS 39 Renewal of derivatives and continuation of hedge accounting.* The amendment allows an exception to the requirement for ending the hedge accounting in certain situations in which the counterparty to the hedging instrument changes.

Business overview

The global production of mink pelts continued to grow in 2014, as the short-term decrease in prices in the previous selling season did not influence the production volumes. As a consequence, the number of mink pelts auctioned internationally in the selling season 2014–2015 was record high. The production of Western fox pelts increased only slightly in 2014. However, production in China, the most important market for the company, increased more vigorously, approximately by ten per cent. Most of the new production was blue fox pelts.

The retail season 2014–2015 in China, the company's main market, was longer than the previous season because the Chinese New Year was celebrated in late February, and the cold winter weather prevailed from early December until the end of the season. The successful retail season was reflected in the international fur auctions between January and March. Thanks to the success of the spring auctions, the production of mink pelts continued to grow in 2015.

However, the market situation changed substantially by the international auctions in June. The fur trade suffered from uncertainty caused by, among other things, the decreasing number of garment orders from Russia and large supplies at the following auctions of the season. The termination at the end of June 2015 of duty-free temporary imports to China of undressed fur pelts for garment manufacturing added to the uncertainty. From that date, depending on the pelt type, a duty of 10–15 per cent is levied on Western pelts imported to China for dressing. Uncertainty increased at the September auctions among other things because of the slowing down of the economic growth in China and the sharp decline in stock exchange prices.

Economic development in the company's other significant market area, Russia, was weak, decreasing the value of the ruble against the euro. For this reason, purchases by Russian customers remained low at all auctions of the season, despite the small pelt and garment inventories. At the same time, customers who buy pelts for the Russian market found it more difficult to pay for the unredeemed pelt purchases made in the previous financial year. Greek and Turkish customers, in particular, have bought pelts for the Russian market.

In the financial year 2014–2015, the company received and sorted about one million mink pelts more than in the previous financial year. Almost all the pelts were sold during the financial year. The international price level of mink pelts increased by four per cent year-on-year. The activity of Chinese customers compensated for the sluggishness of the other markets. China's share of Saga Furs' mink sales increased to 82 per cent from the 63 per cent in the previous financial year. Russia's share dropped to 4 per cent from previous year's 16 per cent. West European purchases were halved and are now at 8 per cent. Purchases by South Korean customers more than doubled and are now at 5 per cent, thanks partly to collaboration with American Legend, a large North American auction house. A significant portion of the customer base of American Legend consists traditionally of South Koreans.

At the first auction of the financial year in December, the blue fox supply was slightly reduced from the originally planned numbers because of the uncertain market situation. In this way, the supply was brought more in balance with demand, which contributed to the success of blue fox sales. A successful retail season in China was also reflected in blue fox sales at the March auction. The bidding was lively and all blue and shadow fox pelts were sold, with the price level up by 15–25 per cent from December. By June, the difficulties in the Russian market began to influence the blue fox sales, as the Chinese manufacturers received distinctly fewer orders than usual from the Russian garment market in spring. In September, the weaker economic growth in China as well as the uncertainty over the coming retail season there, in addition to the difficulties in the Russian market, influenced the blue fox sales: only 80 per cent of the pelts on offer were sold. A positive aspect in the September auction was that the lower prices aroused interest in the blue fox in other markets, with Europe, North America, Korea and Japan buying clearly more blue fox pelts than before.

The situation of the Russian market and the weakened ruble affected the sales of Blue Frost and Silver Fox pelts, normally favoured by Russians, and the various mutation fox pelts, right from the first auction of the financial year. Furthermore, the difficulties of the Russian market were reflected in purchases by Turkish customers, as Russia is their most important market. Significant portions of the fox types mentioned above were left unsold in the auctions of the season. Pelt types that interested the European fashion industry or Chinese buyers sold best. Due to the situation of the Russian market, 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 are measured at the market price but they have not been realised yet.

The number of fox and Finn raccoon pelts received and sorted by the company in the financial year was about 250,000 more than in the previous financial year.

Over 90 per cent of the fox pelts on offer during the selling season were sold. The international price level of fox pelts decreased by 15 per cent year-on-year. The activity of Chinese customers compensated for the sluggishness of the other markets in fox sales as well. Chinese customers' share of Saga Furs' fox sales increased to 74 per cent from the 56 per cent in the previous financial year. Russia's share dropped to 7 per cent from previous year's 22 per cent. West European purchases decreased slightly and are at a little less than 10 per cent.

The difficulties in the Greek national economy were also reflected in the fur trade. At the end of June, Greek banks were compelled to stop making international payments. As a consequence, Greek customers were not able to pay for the pelt purchases made earlier in the financial year. From September it has been possible to make international payments on a limited basis in Greece. Greek customers are able to pay for their purchases if they have received a corresponding amount of income from exports. This was reflected in the September auction which Greek customers could not attend to the extent they had done in previous years.

The development of the exchange rate between the US dollar and euro during the financial year was beneficial for the company. The average exchange rate of the euro, weighted on the basis of auction sales, was devalued on average by almost 20 per cent, which was directly reflected in the price level of pelts produced in the eurozone and in the financial performance of the company. On 15 March, the company issued a positive profit warning in which it estimated that the consolidated profit will be substantially better than in the previous financial year.

The renovation of the company's auction premises was completed in phases between November and March. It was the largest investment in property made by the company in years. Because of the renovation, the September 2014 auction took place in the company's warehouse and the December 2014 auction was exceptionally held outside company premises at Hotel Scandic Park in Helsinki. The renovated premises can accommodate a larger number of customers and enable the company to serve its customers even better than before. The renovation brought 115 new seats in the auction room, with the total number of seats being now 630. In addition, there are about 300 seats in the galleries. The additional capacity was immediately put into use as more than 800 buyers attended the March auction. Saga Congress Center was the new name given to the renovated premises.

As China has become by far the most important market for the company, it decided to develop and strengthen its Asian business organisation. At the same time it was decided that the company's product development activities will be expanded into the Chinese market and a design studio will be established in connection with the China office. The decisions are expected to strengthen the company's position in the competition with Chinese pelt production and other auction houses.

Furfix Oy, a subsidiary of Saga Furs Oyj which offers pelting services in Kaustinen, operated in new extended premises for the entire financial year. The demand for pelting services in Finland did not grow as expected and, furthermore, Evira restricted the import of pelts from abroad to be pelted in Finland. As a consequence, Furfix significantly increased its loss year-on-year. Pelting prices are dependent on the competitive situation and, as far as pelting is

concerned, personnel expenses make up the bulk of the company's expenditure. In this respect, Finland cannot compete with, say, Poland.

Sales during the financial year 1 November 2014–31 October 2015

Review period 1 August–31 October 2015

At an auction held by Saga Furs Oyj on 15–21 September, a total of 1.4 million Saga® mink pelts and 723,000 Saga® fox and Finn raccoon pelts were offered. The slowing down of China's economic growth and the sharp decline of stock exchange prices generated uncertainty in the fur trade as well. Consequently, the Chinese only made selective purchases at the auction. Due to Russia's economic and political uncertainty, the volume of purchases to the Russian market was even lower than before. A total of 400 buyers from all market areas attended the auction. 77 per cent of mink pelts and 68 per cent of fox and Finn raccoon pelts were sold at the auction. The total value of sales came to EUR 56 million (EUR 76 million in September 2014).

Financial year 1 November 2014–31 October 2015

Saga Furs Oyj held a total of four auctions during the financial year, selling 8.6 million mink pelts (7.3 million in the previous financial year). Of these, 95 per cent were from the Saga collections. The company sold 420,000 East European mink pelts as separate collections (480,000). A total of 2.1 million fox pelts (2.0 million), 280,000 Karakul lamb pelts from Afghanistan (330,000) and 130,000 Finn raccoon pelts (110,000) were sold.

The total number of pelts sold during the financial year increased by 14 per cent year-on-year and amounted to 11.1 million pelts (9.8 million). Because of the increase in the number of pelts and weakening of the euro, the total value of sales increased by 26 per cent year-on-year and amounted to EUR 637 million (MEUR 505).

The value of sales by auction was divided as follows:

Auction	Sales 1,000 pelts 2014/2015	Value EUR 1,000 2014/2015	Sales 1,000 pelts 2013/2014	Value EUR 1,000 2013/2014	Sales 1,000 pelts 2012/2013	Value EUR 1,000 2012/2013
September			0	0	1 144	91 348
December	795	49 480	494	33 779	1 579	143 468
March	4 540	307 985	3 959	238 071	3 658	367 699
June	4 058	219 642	4 109	156 676	3 253	272 884
September	1 688	55 581	1 224	75 874	630	104 357
Warehouse sales	57	4 662	12	1 017	14	854
Total	11 138	637 349	9 797	505 418	10 277	980 610

Net turnover

Review period 1 August–31 October 2015

The value of the Group's sales in the last quarter of the financial year decreased by 25 per cent from the previous corresponding review period, to EUR 57.1 million, despite an increase of 40 per cent in the number of pelts traded. Consolidated net turnover decreased by 9 per cent, amounting to EUR 7.2 million (MEUR 7.9).

Financial year 1 November 2014–31 October 2015

Consolidated net turnover increased by 18 per cent year-on-year, amounting to EUR 58.5 million (MEUR 49.8). The bulk of net turnover, 89 per cent (88%), consisted of commission fees collected for pelt trading. The commission fees from producers accounted for 23 per cent (24%) and the commission fees from buyers for 65 per cent (61%) of the Group's net turnover. The remainder was generated among others from sales of pelting services and breeding animals to producers, as well as restaurant and congress service sales. Of the net turnover, 13 per cent was generated in the first quarter, 44 per cent in the second quarter, 31 per cent in the third quarter and 12 per cent in the last quarter of the financial year.

Financial performance

Review period 1 August–31 October 2015

In the final quarter of the financial year, other operating income amounted to EUR 120,000 (EUR 150,000). Operating expenses totalled EUR 12.6 million (MEUR 10.2), resulting in an operating loss of EUR 5.3 million (MEUR -2.1). Net financial income decreased from the previous financial year and amounted to EUR 390,000 (EUR 660,000). Consolidated loss before taxes for the final quarter stood at EUR 4.9 million (MEUR -1.5).

Financial year 1 November 2014–31 October 2015

Other operating profits increased by 121 per cent from the previous financial year, amounting to EUR 920,000 (EUR 420,000), mainly due to the redemption of debts of customers recorded as credit losses in the previous financial years.

Operating expenses increased by 7 per cent year-on-year to EUR 55.0 million (51.3 million). Of the expenses, 28 per cent were generated in the first quarter of the financial year, 27 per cent in the second quarter, 22 per cent in the third quarter and 23 per cent in the last quarter. Operating expenses include credit losses of EUR 1.6 million recorded for receivables from buyers (MEUR 2.9). Due to the market situation in Russia, a 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 39 per cent and other operating expenses for 45 per cent of the operating expenses. Personnel expenses were up 11 per cent year-on-year, totalling EUR 21.4 million (MEUR 19.2). The average number of personnel grew by 8 per cent year-on-year. The number of mink and fox pelts received and sorted during the financial year increased by over 10 per cent from the previous

year. Other operating expenses, excluding the recorded credit loss, increased by 12 per cent from the previous year, amounting to EUR 23.1 million (MEUR 20.7). Expenses related to international lobbying through IFF and Fur Europe increased from the previous year, totalling EUR 3.1 million (MEUR 2.3). As a result of the increase in the number of pelts sold and the weakened euro, the consolidated operating profit improved clearly from the previous financial year and amounted to EUR 4.4 million (loss of MEUR 1.1).

Consolidated net financial income was up 58 per cent year-on-year, totalling EUR 5.0 million (MEUR 3.1). The increase in the net financial income was due to the increase of net interest income, decrease of breeder credit losses and redemption of the breeder credit loss recorded in the previous financial year. Consolidated profit before taxes more than quadrupled and came to EUR 9.4 million (MEUR 2.1).

Return on equity for the financial year was 8.0 per cent (1.6%), and earnings per share were EUR 2.06 (EUR 0.41). Equity per share was EUR 26.38 (EUR 24.98). The Group's equity ratio was 44.5 per cent (43.6%).

Capital expenditure

Consolidated gross capital expenditure during the financial period totalled EUR 6.6 million (MEUR 12.9), accounting for 11 per cent (26%) of net turnover. Of the capital expenditure, 75 per cent was spent on the parent company's tangible assets, 11 per cent on the subsidiaries' tangible assets and 14 per cent on the parent company's intangible assets. The renovation of the company's auction premises, which was started in the previous financial year, was completed in phases between November and March. It was the largest investment in property made by the company in years. The renovation brought 115 new seats in the auction room, with the total number of seats being now 630. In addition, there are 300 seats in the galleries. Saga Congress Center was the new name given to the renovated premises.

Personnel

During the financial year, the company employed 382 people on average. The majority of the personnel hold jobs relating to the handling of fur pelts.

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

	Parent Company			Group		
	2014/2015	2013/2014	2012/2013	2014/2015	2013/2014	2012/2013
Average number of personnel	289	265	230	382	353	304
- permanent staff	121	118	108	164	158	146
- fixed-term staff	168	147	122	218	195	158
Number of staff at the end of the financial year on 31 Oct	129	133	120	193	215	182

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 year totalled EUR 16.7 million and the volume was 690,000 shares, representing 26 per cent of the company's Series C shares. The highest price of the share during the period was EUR 28.98 and the lowest price EUR 17.31, with the average price being EUR 24.15. At the end of the financial year, the Series C share closed at EUR 18.19, while a year earlier, it closed at EUR 25.14. The market capitalisation totalled EUR 65.5 million (MEUR 90.5) at the end of the financial year, on 31 October.

General Meeting

The Annual General Meeting of Saga Furs Oyj held on 22 April 2015 approved the financial statements for the financial year ending on 31 October 2014 and decided to distribute a dividend of EUR 0.70/share, totalling EUR 2,520,000, and to transfer EUR 150,000 to the counter-cyclical budgetary fund. The dividend was paid out on 4 May 2015. In addition, the Annual General Meeting made a decision to authorise the Board of Directors to decide on an additional dividend of EUR 0.30 per share at the maximum. The authorisation is valid until the beginning of the next Annual General Meeting.

The General Meeting held on 22 April 2015 decided that the number of the members of the Board of Directors is 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**, Head of Vitra's Home Segment, 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. As 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 sorted during a financial year are offered for sale at the auctions held in March and June, when the demand is highest. At this point, most of the costs have already been incurred. If demand is low, part of the pelts sorted during the financial year may be carried over to be sold in the next financial year.

A possible decrease in the demand for furs is clearly a risk for the company. Successful sales of the present-day large global production requires that the fashion industry actively uses fur as a raw material, consumers want fur garments and trimmings and the retail structure allows people to buy them. The company is engaged in active marketing and product development in order to influence the choices of the international world of fashion. The goal is to modernise fur as a material and find new uses for fur in order to establish its position in the world of fashion and as a raw material for the fashion industry. To maintain the demand for furs among consumers in the main markets requires that fur remains at all times visible in the world of fashion and, above all, the purchasing power of consumers increases and they remain confident about the future. In China, the company's most important market, large investments in the retail business have enabled the fur trade to grow. Should the retail business lose interest in the fur trade, demand for furs would decrease considerably.

The origin of pelts, responsible production methods and traceability of products have recently gained in importance in the Western fashion industry. Western 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. The slowing down of the economic growth in China and the Chinese government's strong anti-corruption campaign have contributed to the uncertainty felt by Chinese consumers. If the weather in China in the autumn and winter of 2015–2016 is warmer than last year, the demand for furs will remain below the last winter's level. Increased demand in other market areas cannot compensate for the potential decrease in demand in China.

Due to higher prices, too many pelts are being produced globally, at least compared to the probable short-term demand, and global fur pelt production will have to adjust to this situation. The growth in production has been particularly rapid in China, where the government has favoured domestic production by imposing high import duties. As a consequence, China has become the world's largest producer of mink and fox pelts. It is estimated that the price trend in 2015 significantly reduces the volume of pelt production in China. This, however, means there will be more pelts on offer in the selling season 2015–2016.

Fur pelt production costs have risen drastically, as the rapid growth of production has greatly increased feed prices. This has also impaired 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 individual financing risks for Saga Furs Oyj. Some units may have grown too quickly in recent years, which has deteriorated their tolerance to economic fluctuations and, indeed, some 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 at international auctions in September 2015 has caused great losses for the global fur trade and increased the company's financial risks in regard with the financing of buyers. In the upcoming season, it will be harder for buyers to obtain financing for their operations, and different types of financial arrangements are required for an even larger share of the company's sales.

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 new government formed after the autumn 2015 elections has taken a more critical view on fur farming. In Norway, which is a significant producer of fox pelts, attitudes toward fur farming have grown more critical as well. In the Netherlands, the third-largest mink producer in Europe, an appeals court decided in November 2015 to uphold the mink breeding ban imposed by the Dutch Parliament. As a result, the ban is likely to come into force in 2024.

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 well-being of production animals is guaranteed and intervention takes place quickly should any mistakes and neglect be detected in fur farms. For several years, Fur Europe, a lobbying organisation for the fur industry in Europe, together with national associations and universities that carry out fur animal research, have been building the Welfur protocol intended to be adopted in all European fur-producing countries with the aim of improving the well-being of fur animals.

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 2015, certification covered almost 95 per cent of Finnish fur production. In Norway, the local producers' association requires all of its members to be certified. From the selling season 2014–2015 on, the company receives Finnraccoon and fox pelts from certified farms only.

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 restrictions and risks in co-operation with IFF, amongst others.

Main events after the end of the financial year

The first auction in the financial year 2015–2016 was held on 19–21 December 2015. Auctioned items included 330,000 fox pelts (240,000), 31,000 Finnraccoon pelts (23,000) and 280,000 Karakul lamb pelts from Afghanistan (430,000). Unlike previous financial years, mink pelts are not offered until the March auction. The downturn of the economic growth rate in China and the ongoing difficulties in the Russian economy were clearly reflected in the sales results. The market situation is also affected by the uncertainty caused by the sharp decline in mink pelt prices during autumn and the resulting great losses suffered by the fur trade. A third of the Saga® fox pelts offered at the auction were sold. The total value of sales at the auction came to EUR 12 million (EUR 49 million in December 2014). More than 200 buyers from all market areas attended the auction.

During most of the financial year, payments for the pelts sold have been made quickly. In the autumn, however, payments slowed down considerably and, as a consequence of the uncertainty caused by the price decrease in the September auctions, they nearly stopped. The beginning of the selling season 2015–2016 saw an exceptionally large number of unredeemed mink pelts. For fox pelts, the situation is significantly better. As the number of unredeemed pelts has

increased, the company has been forced to use more storage space. For the selling season 2015–2016 it is estimated that the number of pelts offered for auction continues to grow. In order to boost the efficiency of operations the company has decided to carry out mink pelt sorting in three locations instead of four, as earlier. The company has also rented part of the Fur Center property that was sold in 1990.

In November, the company entered into strategic partnership with DHL Global Forwarding. The purpose of the partnership is to develop and improve logistic services offered to Chinese customers in particular. In addition, the partnership enables short-term storage of pelts in China in optimal conditions.

Sales Director Arto Honkanen who has been a member of the Management Group since 1991 will retire in summer 2016 and will be replaced by **Mikko Hovén**, who was also appointed member of the Management Group from 1 November 2015. He will also be responsible for the company's sorting operations.

Estimate of business development in the current financial year

In addition to the December 2015 auction, Saga Furs Oyj will arrange auctions on 8–18 March, 6–16 June and 14–19 September 2016. The company intends to offer 9.0 million mink pelts, 2.7 million fox pelts, 150,000 Finn raccoon pelts and 450,000 Karakul lamb pelts in the selling season's auctions. The March and June auctions will be arranged in cooperation with the North American auction houses American Legend and Fur Harvesters Auction Inc. Each of the three companies will sort its own goods and sell them under its own brand name at Saga Furs' premises in Vantaa. The companies aim to offer close to 13 million mink pelts at the 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 2015. As a consequence of a long cold spell in China, which started in December 2014, the international price level of mink pelts took an upward turn in January–February 2015. This development was amplified by the simultaneous weakening of the euro against the US dollar. All this was reflected in the mink pelt production decisions made by the producers in spring 2015. As a result, the numbers of mink pelts offered at international auctions during the 2015–2016 selling season are record high. Due to the sharp decline in the international price level of mink pelts in September 2015 brought about by oversupply, considerable numbers of breeding animals have been pelted in China during the autumn of 2015. In the long run, this tends to equalise supply and demand but, in the short term, it increases the supply.

Thanks to the exceptionally good breeding conditions in 2015, the number of fox pelts produced has increased significantly. At the same time, due to the slowing down of economic growth, Chinese fashion has started to favour cheaper wool coats sold without trimmings. As a result, uncertainty in the Chinese fox pelt market has reached a level higher than in many years even though the retail season 2015 has been good and the fox pelt stocks are small. Furthermore, it is expected that the mink pelt market situation will impact the fox pelt trade as well. The development of Western production, regarding both mink and fox

pelts, will depend on the sales results of the international auctions held in January–March.

In China, the downturn in the economic growth rate was reflected in the autumn retail season. The business picked up only in December as the weather grew colder. In the retail business, garments have been sold at a very low margin or even at a loss in order to reduce stocks. Furthermore, compared to previous years there is now in China a larger number of unsold pelts that have not been made into garments. Even if the rest of the retail season went well, these pelts cannot be made into garments for the current season but must be carried over to the next retail season.

Russia's economic challenges and the dramatic weakening of the ruble 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 continues to be in vogue and more than 70 per cent of the autumn/winter 2015-2016 collections of the most important fashion weeks contained fur. In North America, the last retail seasons have been successful and the economic growth has gained momentum, but the exceptionally warm winter weather has slowed down the retail business. The warm winter has affected the retail sales of winter garments in the Western Europe as well.

The Group's expenses per pelt are expected to remain virtually unchanged from the previous financial year with the exception of increasing storage costs. The sharp decline in prices in autumn 2015 has also increased the risks related to unredeemed pelts in comparison with previous years. If the prices continue to drop, the risks related to advance financing handed out by the company to producers will also increase. In the uncertain market conditions, the company's competitors have started to offer their customers long-term storage facilities and long 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 year will depend on the sales results of the upcoming auctions, which, in this challenging market situation, are again impossible to forecast.

The Board of Directors' proposal for the distribution of profit

On 31 October 2015, the parent company's distributable funds were as follows:

- retained earnings	55,307,234.05
- profit for the financial year	6,410,137.55
- to be transferred to the counter-cyclical budgetary fund in accordance with the Articles of Association	<u>-641,013.76</u>
	61,076,357.84

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

- a dividend of EUR 1.00 per share (totalling EUR 3,600,000) be paid to shareholders from the distributable funds for the financial year 1 November 2014–31 October 2015 and that EUR 645,000 be transferred to the counter-cyclical budgetary fund.

The suggested dividend pay-out date is 2 May 2016.

Consolidated statement of financial position, IFRS

EUR 1.000

ASSETS	31 Oct 2015	31 Oct 2014
Non-current assets		
Property, plant and equipment	39 479	37 463
Intangible assets	4 224	4 314
Available-for-sale investments	898	684
Long-term receivables	11 328	4 405
Non-current assets, total	<u>55 929</u>	46 866
Current assets		
Inventories	2 701	2 547
Interest-bearing receivables from buyers	43 669	58 256
Interest-bearing receivables from fur breeders	84 047	85 371
Non-interest-bearing receivables	34 485	21 897
Tax assets based on taxable income for the period	702	33
Cash and cash equivalents	6 249	4 059
Current assets, total	<u>171 855</u>	172 162
Total assets	<u><u>227 783</u></u>	<u>219 028</u>
 SHAREHOLDERS' EQUITY AND LIABILITIES		
	31 Oct 2015	31 Oct 2014
Equity attributable to parent company's shareholders		
Share capital	7 200	7 200
Share premium account	254	254
Other funds	19 740	19 590
Translation difference	54	60
Fair value reserve	426	262
Retained earnings	67 293	62 565
Shareholders' equity, total	<u>94 968</u>	89 931
Provisions for liabilities and charges	105	266
Non-current liabilities		
Deferred tax liabilities	2 449	2 168
Current liabilities		
Interest-bearing liabilities	104 447	99 367
Trade and other payables	25 686	26 751
Deferred taxes based on the taxable income	128	546
Current liabilities, total	<u>130 261</u>	126 664
Total liabilities	132 711	128 832
Total shareholders' equity and liabilities	<u><u>227 783</u></u>	<u>219 028</u>

Consolidated statement of comprehensive income

EUR 1.000

	1 Aug 2015- 31 Oct 2015 3 mo	1 Nov 2014- 31 Oct 2015 12 mo	1 Aug 2014- 31 Oct 2014 3 mo	1 Nov 2013- 31 Oct 2014 12 mo
Continuous operations				
Net turnover	7 181	58 508	7 927	49 783
Other operating income	122	919	154	416
Materials and supplies	-1 332	-4 447	-1 018	-4 525
Employee benefits	-3 855	-21 351	-3 473	-19 239
Depreciation and impairment loss	-1 156	-4 525	-1 065	-3 893
Other operating expenses	-6 289	-24 672	-4 664	-23 596
Operating profit/loss	-5 329	4 433	-2 138	-1 054
Financial income	672	6 444	1 455	4 821
Financial expenses	-279	-1 481	-800	-1 682
Profit/loss before tax	-4 937	9 395	-1 483	2 085
Income tax	945	-1 995	181	-612
Net profit/loss for the reporting period	-3 991	7 400	-1 301	1 473
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Available-for-sale investments	60	206	20	70
Translation differences	1	-9	5	5
Income tax effect	-12	-41	-2	-12
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	49	156	23	64
Total comprehensive income/expense	-3 942	7 556	-1 278	1 536
Earnings per share, EUR, basic (EUR) *)	-1,11	2,06	-0,36	0,41

*) There are no factors diluting the key performance indicator

Consolidated statement of cash flows

EUR 1.000	1.11.2014- 31.10.2015 12 mo	1.11.2013- 31.10.2014 12 mo
<i>Cash flow from operating activities</i>		
Payments received for selling on commission	629 178	487 583
Cash received from other operating income	338	337
Cash paid for other operating expenses	-622 704	-545 324
Cash flow from operating activities before financial items and taxes	6 812	-57 404
Interests, paid	-954	-731
Other financial expenses	-454	-970
Interest, received	5 042	4 535
Other financial income	564	285
Dividend income	22	21
Direct taxes paid	-2 841	-1 890
Net cash flow from operating activities (A)	8 191	-56 154
<i>Cash flow from investment activities</i>		
Investments in tangible and intangible assets	-6 584	-12 859
Proceeds from sale of tangible and intangible assets	171	88
Investments in other assets	-8	-87
Net cash flow from investments activities (B)	-6 421	-12 858
<i>Cash flow from financing activities</i>		
Proceeds from short-term borrowings	2 896	55 250
Dividends paid	-2 476	-7 250
Net cash flow from financing activities (C)	420	48 000
Change in cash flows (A+B+C) increase (+) / decrease (-)	2 190	-21 012
Cash and cash equivalents, 31 Oct	6 249	4 059
./. Cash and cash equivalents, 1 Nov	4 059	25 071
Net change in cash and cash equivalents	2 190	-21 012

Consolidated statement of changes in shareholders' equity 1.11.2013-31.10.2014

	Share capital	Share premium account	Other funds	Translation difference	Fair value reserve	Retained earnings	Before minority interests	Minority interests	Total
Shareholders' equity, 1 Nov 2013	7 200	254	17 370	57	203	70 327	95 411	0	95 411
Result for the reporting period						1 473	1 473		1 473
Other comprehensive income/expense				3	58	2	64		64
Other change *)						363	363		363
Dividend						-7 380	-7 380		-7 380
Transfer to counter-cyclical budgetary fund			2 220			-2 220	0		0
Shareholders' equity, 31 Oct 2014	7 200	254	19 590	60	262	62 565	89 931	0	89 931

Consolidated statement of changes in shareholders' equity 1.11.2014-31.10.2015

Shareholders' equity, 1 Nov 2014	7 200	254	19 590	60	262	62 565	89 931	0	89 931
Result for the reporting period						7 400	7 400		7 400
Other comprehensive income/expense				-6	165	-3	156		156
Dividend						-2 520	-2 520		-2 520
Transfer to counter-cyclical budgetary fund			150			-150	0		0
Shareholders' equity, 31 Oct 2015	7 200	254	19 740	54	426	67 292	94 968	0	94 968

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

Key performance indicators

	2014/2015	2013/2014
	12 mo	12 mo
Total sales, EUR 1,000	637 349	505 418
Net turnover, EUR 1,000	58 508	49 783
Operating profit/loss, EUR 1,000	4 433	-1 054
% of net turnover	7,6%	-2,1 %
Profit before taxes, EUR 1,000	9 395	2 085
% of net turnover	16,1 %	4,2 %
Earnings per share, EUR	2,06	0,41
Equity per share, EUR	26,38	24,98
Return on equity (ROE)-%	8,0 %	1,6 %
Return on investment (ROI)-%	5,4 %	1,7 %
Equity-to-assets ratio, %	44,5 %	43,6 %
Gearing	1,03	1,06
Gross capital expenditure, EUR 1,000	6 592	12 946
% of net turnover	11,3 %	26,0 %
Average number of personnel	382	353

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 2015 31 Oct 2014

Mortgages given and receivables pledged in security for dept

Loans from financial institutions	68 443	63 021
Mortgages on property	54 071	54 071
Mortgages on company assets	2 691	2 691
Pledges given	791	791

Derivative contracts

Forward exchange agreements	43 916	29 268
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Rent commitments for real estate

Minimum rents to be paid based on binding rent contracts for business premises:

Within one year	1072	1092
Between one and five year´s time	5	34

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 2014/2015 2013/2014
12 mo 12 mo

Transactions with related parties:

Net turnover

- other related party	505	317
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Other operating income

- parent company	48	32
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Other operating expenses

- parent company	-17	-13
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Financial income

- other related party	45	40
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Financial expenses

- parent company	-20	-29
- other related party	-4	-13

Related party receivables

- other related party	1 185	988
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Related party liabilities

- parent company	-1 992	-4 222
- other related party	-1 850	-1 633

Management compensation	2014/2015	2013/2014
	12 mo	12 mo

Remuneration and other short-term employee benefits	1 376	1 316
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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, 29 December 2015

SAGA FURS OYJ
Board of Directors